20TH ANNIVERSARY ISSUE: THE BEST MOVES FOR THE NEXT DECADE P. 16

THE WALL STREET JOURNAL.

SmartMoney

FIX YOUR 401(k) PLAN

PAY LOWER FEES

BOOST YOUR RETURNS

OR

TAKE YOUR MONEY AND RUN P. 56

April 2012

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Critics say most 401(k) plans are expensive and poorly designed. Can investors find the tools to repair them?
Plus: Uncovering the hidden costs in corporate plans.

9 to 5—at 75 p. 68
How the fastest-growing group in the American workforce is changing what it means to be "retired."

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Investors have been pouring billions into foreign-exchange funds—but many aren't getting quite the hedge they think.

10 Things Campaign Managers Won't Tell You p. 92
The truth from those who make the polls, the ads and the money.

ON THE COVER
Photo-illustration by Stephen Webster for SmartMoney

Smart fund-picking can plug the financial leaks caused by hidden fees.

PHOTOGRAPH BY TOM SCHIERLITZ/TRUNK ARCHIVE

IT'S A NEW WORLD. YIELDS ARE LOW. MARKETS ARE VOLATILE. CONFIDENCE IS SCARCE.

No matter what type of investor you are, the ground has shifted under your feet. Markets aren't behaving the way they used to. And even people who have spent their lives working, saving and planning—people who have done "everything right"—are worried about the future.

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"So what do I do with my money?"

It's a question people are thinking longer and harder about than they ever have before—and it affects the answers to so many others: *When will I be able to retire? Will I be able to pay for my children's education? Will I outlive my savings?*

The New Diversification

In this era of low yields and hyper-connected markets, the traditional mix of stocks and bonds offers little chance of delivering the returns you need. Your portfolio today must be more dynamic—flexible enough to adapt to rapidly changing markets—and more diverse than it's ever been before. Here are some ideas to discuss with your financial advisor:

Five Practical Actions for a More Dynamic, Diverse Portfolio

1 **Rethink the Cost of Cash**
Holding *some* cash to take advantage of new investment opportunities is wise. But holding too much for too long is no way to save.

2 **Seek Income in Different Places**
For income that can beat inflation, investors have to look far and wide—and even consider new opportunities in familiar places.

3 **Open Your Eyes to Alternatives**
Funds that offer access to alternative investments such as real estate and commodities have the potential to provide consistent and high returns *and* could even reduce risk.

4 **Be Active About Passive**
Exchange traded funds (ETFs) provide precise, transparent and low-cost ways to tap market returns and gain access to asset classes and global markets.

5 **Use Your Longevity**
Realizing you are going to live longer allows you to expand your investment horizon well beyond the day you retire.

IDEAS TO DISCUSS WITH YOUR FINANCIAL ADVISOR:

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To Grow Value Through Equity Income:
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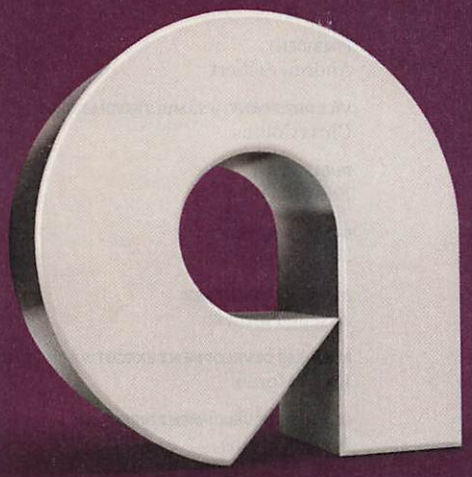

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COPY CHIEF
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Linda Lacina, Kate Poole

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CONTRIBUTING EDITORS
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DEPUTY PERSONAL FINANCE EDITOR
Jeff Nash

DESIGN DIRECTOR
Sue Ng

ART DIRECTORS
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PHOTO EDITOR
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DESIGN ASSOCIATE
Lisa Wells

DIGITAL IMAGING SPECIALIST
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Feedback

Letters, Tweets and Blog Posts From Our Readers

Readers reacted strongly to February's "Attack of the 6.5-Point Typeface." Many shared their frustration with the growing use of tiny print on everything from bank disclosures to product warranties.

A friend succinctly defined the problem: "What the bold print giveth, the fine print taketh away." I believe each sentence is designed to avoid or respond to a potential lawsuit. It's like the warning label on ladders (my favorite: "Do not leave ladder on a pile of frozen manure in winter"). I have two mortgage documents in my home: one from my grandparents' time (it's a page long) and one from my last mortgage (36 pages).

—David Ecale, Minneapolis

Adding to your comments on unreadability, I would say that boomers like myself find it a real chore to read magazines, books and newspapers that continue to express themselves in Times Roman. I can get on the Internet and read an article in 8-point Ariel faster than I can most articles in traditional media. Note how advertisers, bill collectors and comic strips always use the format I suggest!

—Robert Crowley Royal Oak, Mich.

I am reminded of—and irked by— fine print in almost every TV ad and piece of mail. If companies weren't so intent on hiding information, you wouldn't see so many TV ads with light text on a light background. And I once received a one-page solicitation in the mail; the back was blank except for a small strip of fine print at the bottom. They had the whole page, but they chose to scrunch it all into half an inch.

—Jim Altenbach, Cetronia, Pa.

I suspect in 50 years we will require "brain implant interfaces" to be able to read and process the trillions of bits of useless information from magazines, books and the Internet, as well as the millions of disclaimers, terms and conditions, and other legal documents that we absolutely must read.

—Robert DeBonis Brooklyn, N.Y.

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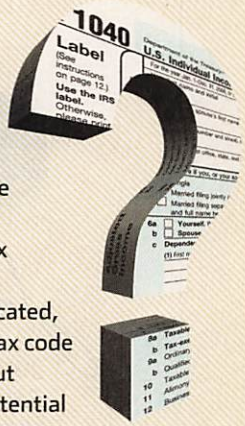
TAXES

The Tax Guy



What's new to Form 1040 this year? What are the tax consequences of a short sale? With the tax-filing deadline fast approaching, SmartMoney.com tax expert Bill Bischoff examines the complicated, ever-changing U.S. tax code each week to point out opportunities and potential missteps.

smartmoney.com/tax-advice

INVEST

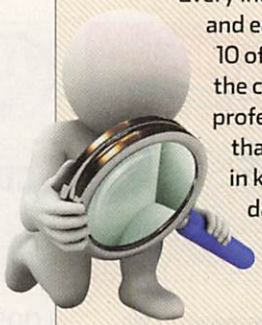
By the Numbers

In his weekly column, Jack Hough, associate editor for SmartMoney.com, looks at statistical quirks inside and beyond the investing world—and the openings they present for Main Street investors.

smartmoney.com/bythenumbers

SPEND

10 Things They Won't Tell You



Every industry has its secrets, and each week we reveal 10 of them, pulling back the curtains on a business, profession or institution that has a vested interest in keeping you in the dark. The goal: Arm readers with tips and techniques to make them savvier consumers.

smartmoney.com/10things

JONATHAN DAHL
Editor in Chief
jdahl@smartmoney.com
On Twitter: @DahlJonathan

Twenty Years Later

BACK IN MY REPORTING DAYS at *The Wall Street Journal*, I remember hearing distant rumors about a colleague, Steven Swartz, helping to start up a new magazine that (a) seemed a little narrow and (b) I hoped I'd never get dragged into. The topic was personal finance, which was about as much fun then as the obituaries beat. Think simple "how to" pieces, again and again and again.

The magazine was launched in 1992, in the early days of one of the longest investing booms in modern history; it quickly emerged as a stroke of brilliance (and turned Steve into a media legend). And with no small amount of pride, I think it's fair to say that from the get-go, SmartMoney has played an important role in introducing more useful advice and sophisticated reporting to this field. But as we enter our next decade, we know that nothing about personal finance is the same as in those early years. Today's investor has to deal with everything from a shaky global economy to a stock market that can flash crash in minutes. Real estate is no longer about the best way to flip a home; it's about not flipping out over paying your mortgage.

It's also a time when you can run a cover story about fixing 401(k) plans, and people will know what you're talking about. Looking at the state of these plans, which have become America's foremost means of saving for retirement, it's easy to understand why so many workers are bitter. Our own reporting found too many with sky-high fees and too few investing options, when the opposite should be the case. But as usual, the reporters and editors here also found some savvy moves to tackle some of those problems. And that has been our mission—for 20 years now.

FIX YOUR 401(k): Overpriced funds, vague advice and too few choices. Is your retirement plan beyond repair? **Page 56**

LOOSE CHANGE: Currency markets were once a sleepy corner of the economy; now they're the Wild West. **Page 78**

FIXER-UPPERS: Ritzy towns with great schools, luxury shopping and homes that are cheap (for a reason). **Page 98**

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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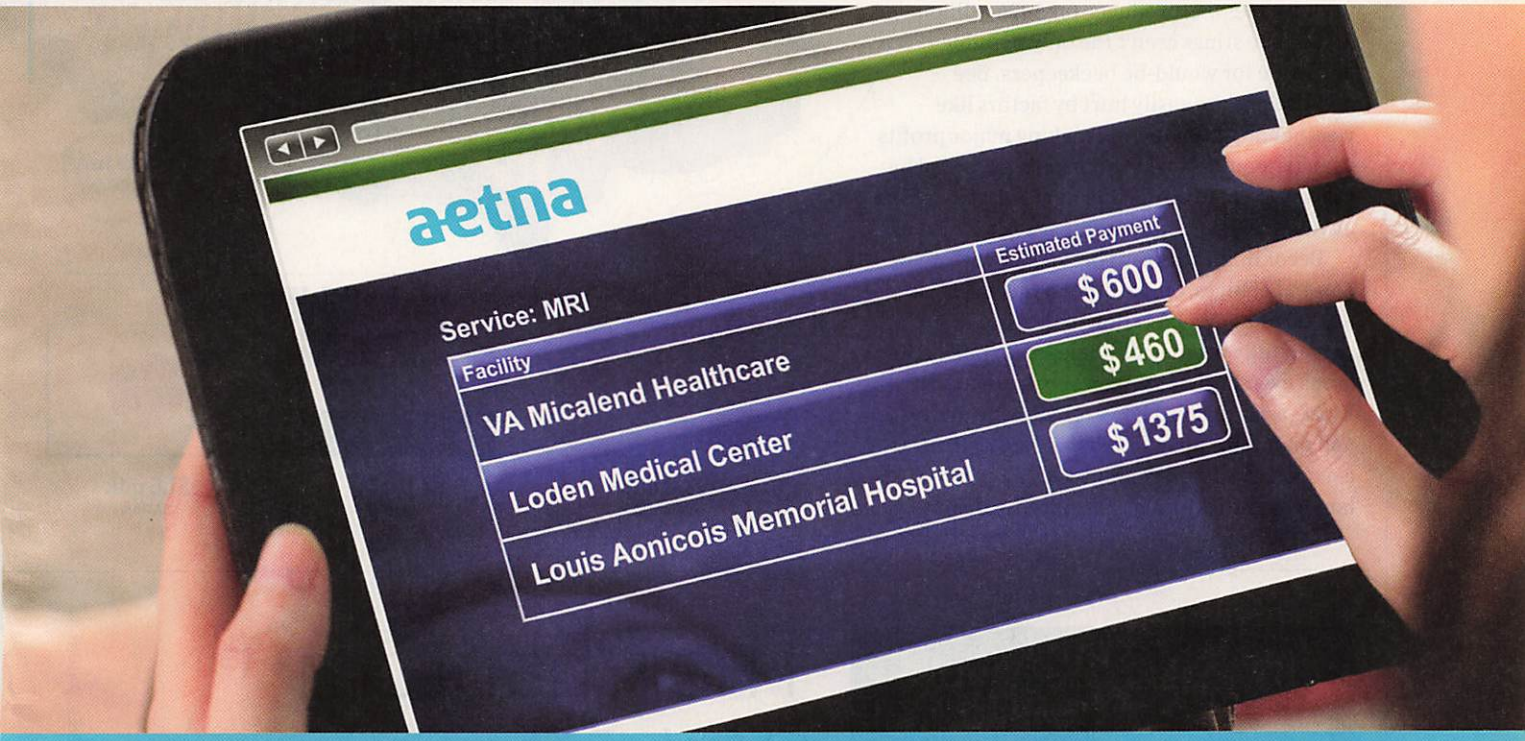

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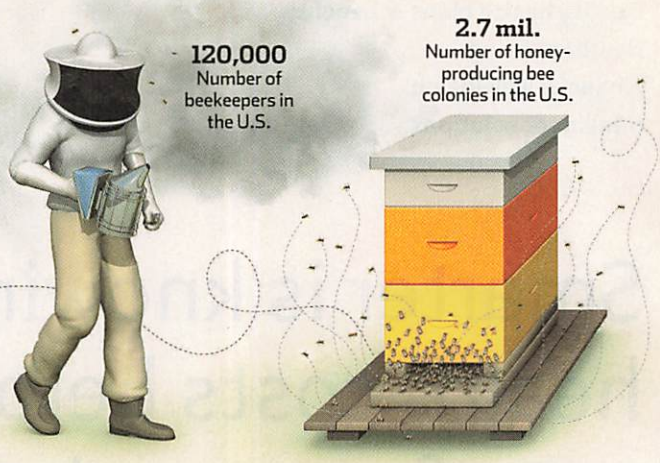
Show Me The Honey

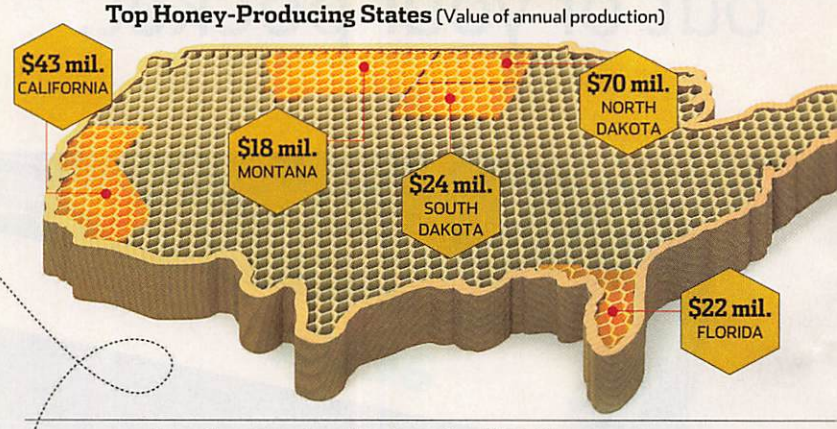


Got a sweet tooth? Apparently, those who do are willing to pay for it: U.S. honey prices have jumped nearly 50 percent since 2007. Locally produced honey commands the highest prices, with shoppers sometimes paying nearly $16 a pound for versions produced by small firms. (Mass-produced is now closer to $4 or $5 per pound.) Beeswax, a honey byproduct used in things like lotion, can also be big business; in 2007, Clorox bought Burt's Bees, a company known for eco-friendly beeswax products, for $925 million.

But bee stings aren't the only possible downside for would-be beekeepers. Bee populations are easily hurt by factors like weather and disease. And making major profits usually requires maxing out bees' potential by renting them to farmers to help pollinate crops, an undertaking that requires trucks and labor.

Becoming a backyard beekeeper with a handful of hives, on the other hand, takes just $2,000 or so. An operation of this size that successfully peddles its homegrown honey can break even in about three years, say experts. Even easier: Ballard Bee Co. in Seattle delivers and maintains up to four hives for $70 to $100 a month. Hosts are guaranteed a monthly jar of honey—no sticky fingers required. *—Linda Lacina*

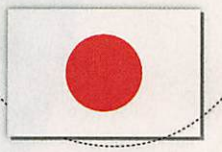
Top Honey-Producing States (Value of annual production)



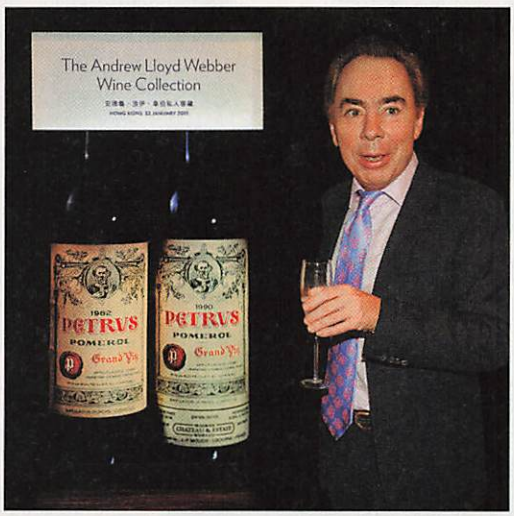
Leading Foreign Markets for U.S. Honey (2010)

$2.0 mil.
CANADA

$2.0 mil.
YEMEN



$1.6 mil.
JAPAN



The Phantom Of the Auction

The Score: Andrew Lloyd Webber may have composed some of theater's most memorable songs, but sometimes there's no sound sweeter than the rap of a gavel. The composer behind *Cats* and *The Phantom of the Opera* recently auctioned off part of his wine collection for nearly $6 million—with a single case of rare Bordeaux bringing in close to $78,000. This 1982 Château Pétrus is "the Picasso" of wine and is now worth more than 100 times its original cost, says Stephen Mould, European head of the wine department at Sotheby's, which staged the sale.

The Backstory: Webber declined to comment but has previously

PHOTOGRAPHS BY DAVE M. BENETT/GETTY IMAGES (WEBBER); ANTONY DICKSON/GETTY IMAGES (WINE)

Infographics by Emily Cooper for SmartMoney

Know Your Nectar

Honey varies in color, flavor and scent, depending on where it's produced (there are more than 300 "varietals" in the U.S. alone). Beekeepers with an unusual strain can sell their honey for more than triple the usual supermarket price.

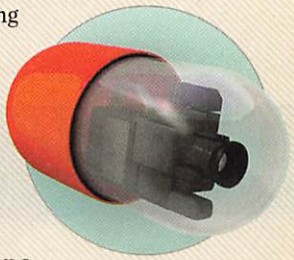
SOURCES: NATIONAL AGRICULTURAL STATISTICS SERVICE; NATIONAL HONEY BOARD; U.S. CENSUS BUREAU

said he began collecting wine at age 15, ultimately concentrating on French varietals, which typically make the best investment buys. (Bordeaux accounts for 70 percent of Sotheby's wine auctions.) And while Webber's celebrity status may have boosted prices somewhat, oenophiles say the auction's top sellers hit the vino trifecta: wines that are rare, mature, and from the world's best vineyards. What's more, experts credit the sale's Hong Kong location for its success—the Asian market has exploded since the state lifted import duties on wine in 2008.

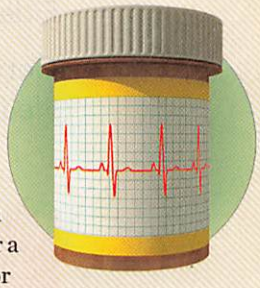
The Takeaway: It's possible to profit from wine, even if you didn't start quaffing in high school. Wine appraisers suggest looking for highly rated reds that age well, from reputable producers with small outputs. (A caveat: Experts warn that getting wines from the most exclusive vineyards is no easy feat.) But even the best bottles can leave investors with cottonmouth: One index that tracks market prices for 100 valuable wines fell 15 percent in 2011. *—Jen Wieczner*

Treasure Hunt

Pills have become more than just a way to help the medicine go down. With generics now accounting for a bigger share of the 4 billion prescriptions written annually, Big Pharma is looking for ways to boost its pipeline. Enter the superpill:



SAY CHEESE. By taking pictures as they pass through the GI tract, Given Imaging's PillCams help diagnose problems, sans invasive gastro tests. (Given Imaging says it's also working on a colonoscopy version.) The firm says PillCams make up 95 percent of the U.S. market for G.I. cameras—though a group working on a high-def pill may change that. Intestines in HD, anyone?

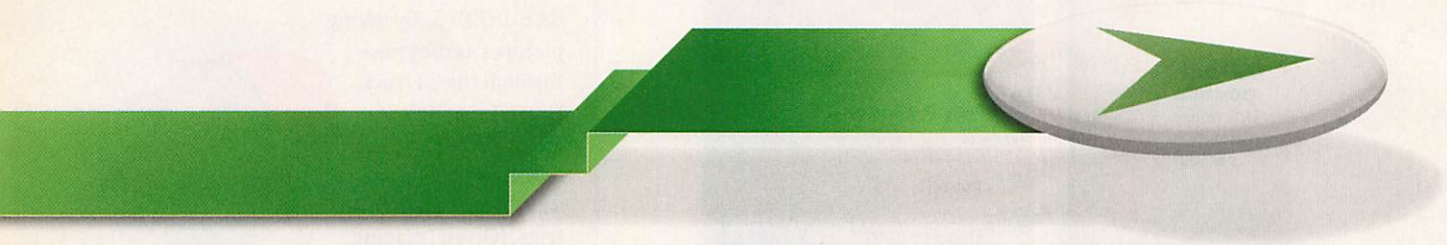


SWALLOWING SURVEILLANCE. Contact with stomach acid turns Proteus Biomedical's ingestible sensors into digital monitors, which can determine whether a patient took his meds or why her heart rate spiked. Pharma giant Novartis found the technology promising enough to plunk down $24 million to license it, and Proteus says it plans to debut it in Europe soon.

TAKE A WHIFF. It's not just docs who see pills' potential. A Dutch artist and biologist have teamed up to develop an ingestible perfume that emits a (good) fragrance when the pill popper sweats. There's no launch date yet for Swallowable Parfum, but deodorant makers beware: If it succeeds, that could be the end of swiping twice under each arm.

—Alyssa Abkowitz

How does guaranteed income sound in this market?



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INVEST

Milestones | 16
Highlights of our 20 years covering investing.

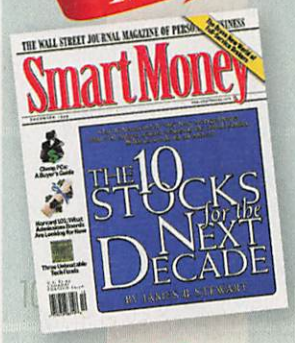
Corner Office | 22
A top brewer navigates a flat beer market.

ROI | 24
It's time to buy a house. Now. No, really.

Illustration by Francesco Bongiorni for SmartMoney

20TH ANNIVERSARY ISSUE

A BULL RUN, TWO BUBBLES, A DOZEN CRISES and 229 magazine issues—a look back at events and issues that have shaped SMARTMONEY'S investing coverage since 1992.



APR. 1992
S&P 500 index at 400; SMARTMONEY launches. Our first portfolio is up 506 percent today.

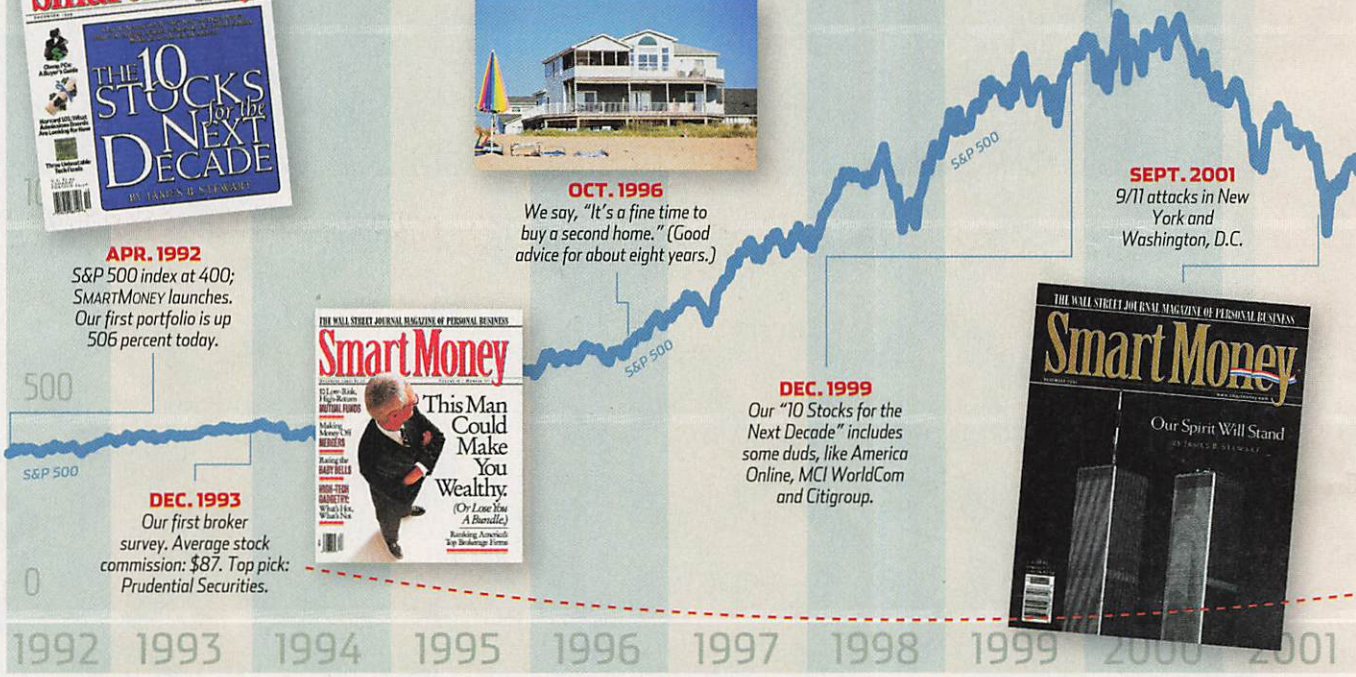
OCT. 1996
We say, "It's a fine time to buy a second home." (Good advice for about eight years.)

DEC. 1993
Our first broker survey. Average stock commission: $87. Top pick: Prudential Securities.

DEC. 1999
Our "10 Stocks for the Next Decade" includes some duds, like America Online, MCI WorldCom and Citigroup.

MAR. 2000
Dot-com bubble peaks.

SEPT. 2001
9/11 attacks in New York and Washington, D.C.



Twenty Years on The Front Lines

Stocks. Bonds. Gold. Real Estate. Whether values rose or fell, some valuable lessons emerged that savvy investors still heed today. By Russell Pearlman

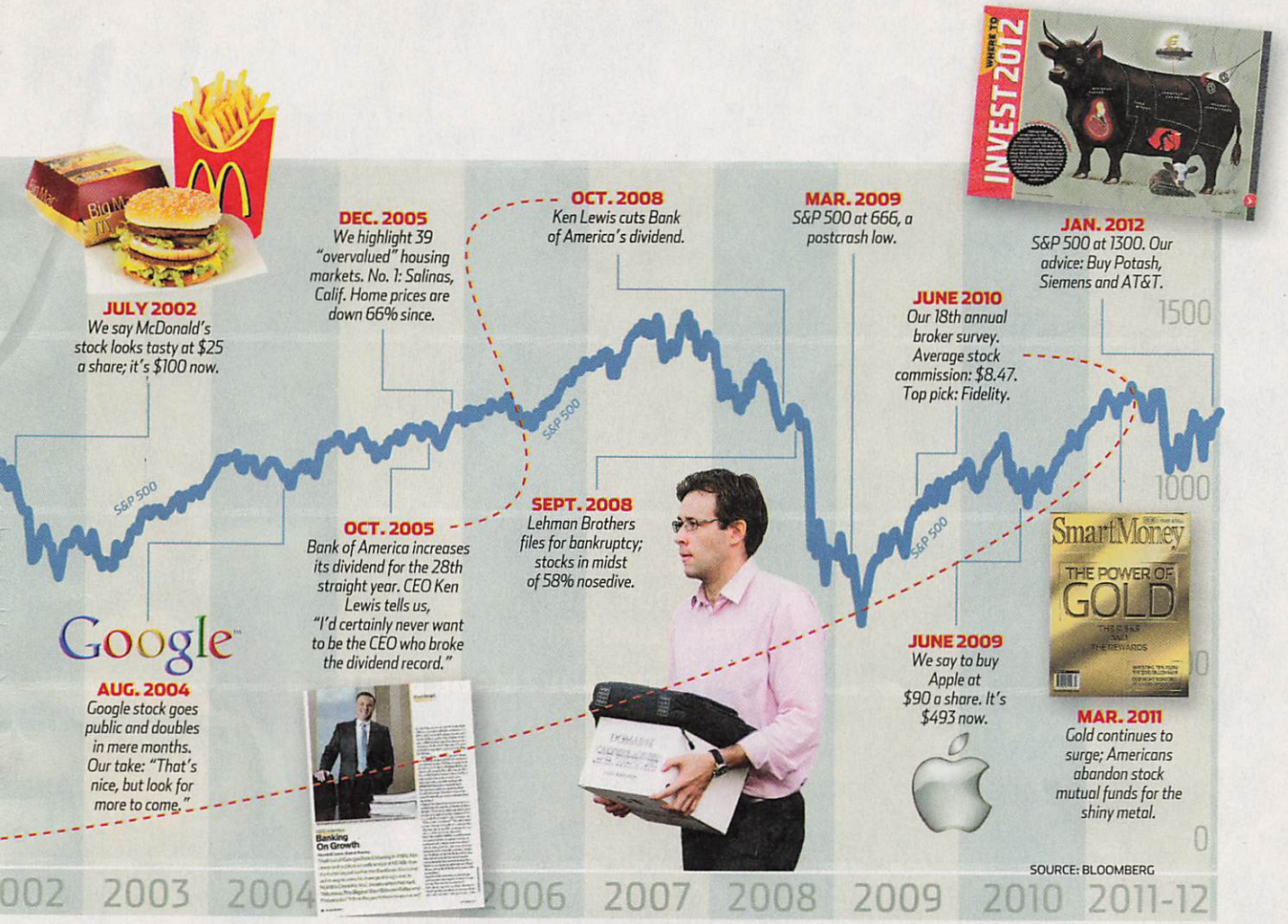
BUBBLES HAPPEN. Our brains are our worst enemy. New products don't make us better investors. Those are notions that SMARTMONEY's editors and writers embrace—now. Back in April 1992, however, the magazine's goal was just to help demystify personal finance. But as investing veered from thrilling (the 1990s rally) to devastating (the 2008 financial crisis), many important lessons emerged.

Blowing Bubbles

In the late 1990s, analysts hawked profitless tech stocks by the dozen, saying the new rules of the "new economy" made them worth billions of dollars. Later, we were told that nationwide housing prices, no matter how high they rose, would never fall. Wrong on both counts. Bubbles can stick around for years, allowing investors to make fortunes. But when bubbles burst, they make the lives of millions miserable. The key, experts say, is to watch for prices going out of whack en masse.

We're Irrational Investors

"Buying low and selling high goes completely against human nature," says Stu Schweitzer, vice chairman at J.P. Morgan Private Bank. That wasn't the prevailing wisdom 20 years ago. It took Princeton professor Daniel Kahneman winning a Nobel Memorial Prize in 2002 for many to take the field of behavioral finance seriously. What have we learned? We are, too often, overconfident in our investing ability. When we're not overconfident, we're often too afraid of losing money, which makes us miss opportunities. So-called sophisticated investors aren't immune; the


JULY 2002
We say McDonald's stock looks tasty at $25 a share; it's $100 now.
DEC. 2005
We highlight 39 "overvalued" housing markets. No. 1: Salinas, Calif. Home prices are down 66% since.
OCT. 2008
Ken Lewis cuts Bank of America's dividend.
MAR. 2009
S&P 500 at 666, a postcrash low.
JAN. 2012
S&P 500 at 1300. Our advice: Buy Potash, Siemens and AT&T.
JUNE 2010
Our 18th annual broker survey. Average stock commission: $8.47. Top pick: Fidelity.
INVEST 2012
WHERE TO
S&P 500
1500
1000
0
Google
AUG. 2004
Google stock goes public and doubles in mere months. Our take: "That's nice, but look for more to come."
OCT. 2005
Bank of America increases its dividend for the 28th straight year. CEO Ken Lewis tells us, "I'd certainly never want to be the CEO who broke the dividend record."
SEPT. 2008
Lehman Brothers files for bankruptcy; stocks in midst of 58% nosedive.
JUNE 2009
We say to buy Apple at $90 a share. It's $493 now.
MAR. 2011
Gold continues to surge; Americans abandon stock mutual funds for the shiny metal.
SmartMoney
THE POWER OF GOLD
Banking On Growth
SOURCE: BLOOMBERG
002
2003
2004
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2011-12

past two decades are littered with hedge fund managers and mutual fund gurus who let their emotions or preconceived notions get in the way of smart decisions.

Faster, Cheaper, but Not Better

Online trading, ETFs, funds of funds and a slew of other products have expanded investing opportunities immensely. Often they've made the process cheaper—and easier, too. But all this innovation hasn't necessarily made us more effective investors. Target-date funds debuted as a way for people to buy one product and not worry about retirement strategy again. Then came 2008, when some funds lost 40 percent. So much for "set and forget." Such innovations, we were reminded, are not replacements for critical thinking.

Emerging Risks and Rewards

In a February 1996 story, our first on investing in emerging-market stocks, we complained about how difficult it was to buy the stock of Chinese and Indian firms. But buying them would have been worth the effort. China entered the World Trade Organization in 2001, pulling itself and other nations supplying it into the modern global economy. Since then, the Morgan Stanley Emerging Markets index is up 221 percent (U.S. stocks: up 14 percent). There's still money to be made; emerging markets will eventually account for half of the world's economy, says Eric Lascelles, chief economist for RBC Global Asset Management. These stocks will probably continue to be volatile, however. International-stock investors still have to worry about coups, currency defaults and runaway inflation a lot more than domestic-stock investors. "Foreign stocks soar and crash. It's not their fault," Lascelles says.

See the best stocks of the past 20 years, at SmartMoney.com.

HINTS OF GENIUS
(AND A CLUNKER)

A look at our best stock pick—and our worst.

APPLIED MATERIALS
April 1992; +2,102%
The Internet's rise put this microchip-equipment maker's profits into overdrive.

LEHMAN BROTHERS
January 2007; –100%
It looked cheap. What we—and nearly everyone else—didn't know was how much exposure it had to the U.S. housing market. In 2008 it filed for the largest bankruptcy in U.S. history.

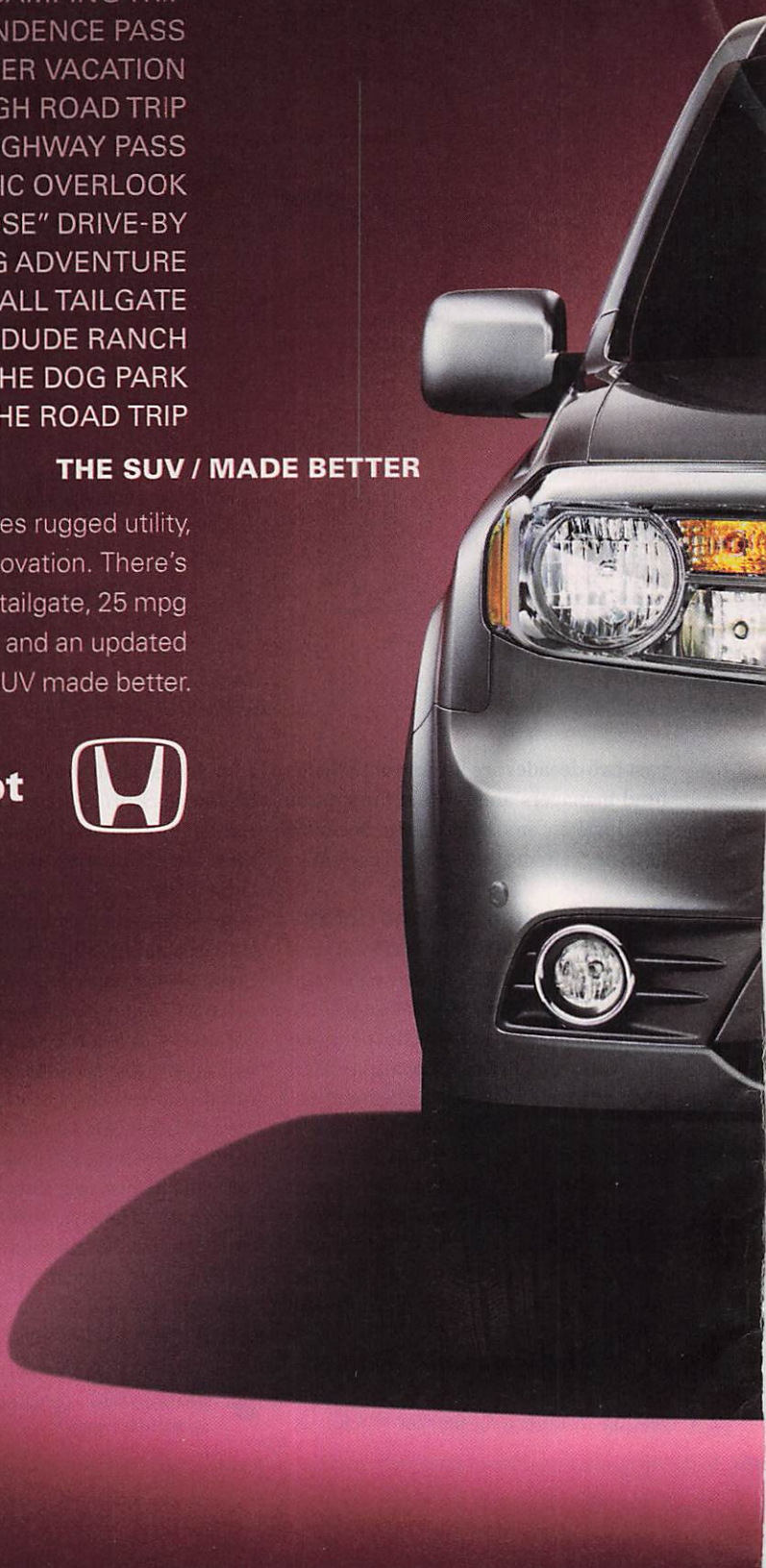
PHOTOGRAPHS BY DAVID MARSDEN/GETTY IMAGES (MCDONALD'S); ANDREW WINNING/REUTERS/LANDOV (LEHMAN BROTHERS)

THE ORTHODONTIST VISIT
THE VALET HANDOFF
THE DRIVE TO PRACTICE
THE DRIVE TO THE GAME
THE "WE'RE LATE, JUST CHANGE ON THE WAY" SPRINT
THE SUMMER-FRIDAY DAYTRIP
THE CUT-OUR-OWN-CHRISTMAS-TREE OUTING
THE BACHELOR-PARTY WEEKEND
THE SNOW DAY
THE CAMPING TRIP
THE DRIVE OVER INDEPENDENCE PASS
THE "WE DON'T NEED AIRLINES" SUMMER VACATION
THE 18-HOURS STRAIGHT-THROUGH ROAD TRIP
THE TWO-LANE HIGHWAY PASS
THE SCENIC OVERLOOK
THE "HEY, LOOK, THERE'S A MOOSE" DRIVE-BY
THE WHITE-WATER RAFTING ADVENTURE
THE COLLEGE-FOOTBALL TAILGATE
THE RIDE HOME FROM THE DUDE RANCH
THE RUN TO THE DOG PARK
THE ROAD TRIP

THE SUV / MADE BETTER

The redesigned Pilot combines rugged utility, smart functionality and Honda innovation. There's room for 8, an available power tailgate, 25 mpg highway,* a newly refined interior and an updated exterior. Making the Pilot the SUV made better.

theHondaPilot



pilot.honda.com

*18 city/25 highway/21 combined mpg for 2WD models. Based on 2012 EPA mileage estimates. Use for comparison purposes only. Do not compare to models before 2008. Your actual mileage will vary depending on how you drive and maintain your vehicle. ©2011 American Honda Motor Co., Inc.

Seeking Safety In Singapore

The tiny Asian city-state has a pristine credit rating—and a growing herd of American investors lining up to buy its bonds and currency. By Reshma Kapadia

BY NOW, everyone knows the standard recipe for a safe portfolio: Buy some Treasurys, hunker down and pray for daylight. But a growing number of more adventurous investors are now seeking safety by buying bonds from a tiny, affluent nation 9,500 miles away. With a population about the size of Alabama's, Singapore boasts one of the world's highest savings rates and biggest trade surpluses—along with a AAA credit rating, which many developed nations, including the U.S., no longer possess.

Singapore has long been a major port and a significant player in Asia's financial-services industry, but its bond markets have only recently started drawing more attention from global money pros. The country sold a record $14 billion in bonds in 2011, and the price of Singapore's three-year government bonds rose more than 9.5 percent last year. Its steady economy has also been a draw for currency traders, who last summer drove the value of the Singaporean dollar to its highest level against the U.S. dollar since 1992. "Singapore has a stable banking system and delivers a stable government," says Axel Merk, whose Merk Asian Currency fund has increased its stake in Singapore to one-fifth of its $100 million portfolio. (For more on currencies, see "The Currency Conundrum" on page 78.)

$6.5 tril.
U.S. government bonds outstanding

$104 bil.
Singapore's government bonds outstanding

That said, many investors aren't yet willing to label Singapore a haven. For starters, its economy is export-driven, which some money managers say leaves it vulnerable to a slowdown in China and a recession in Europe. The fact that its economy and bond market are so small can also mean bigger price swings during times of economic bad news. Investors in its bonds don't exactly get paid to wait, either: The 1.6 percent yield on 10-year government bonds is even less generous than the roughly 2 percent payout on 10-year Treasurys.

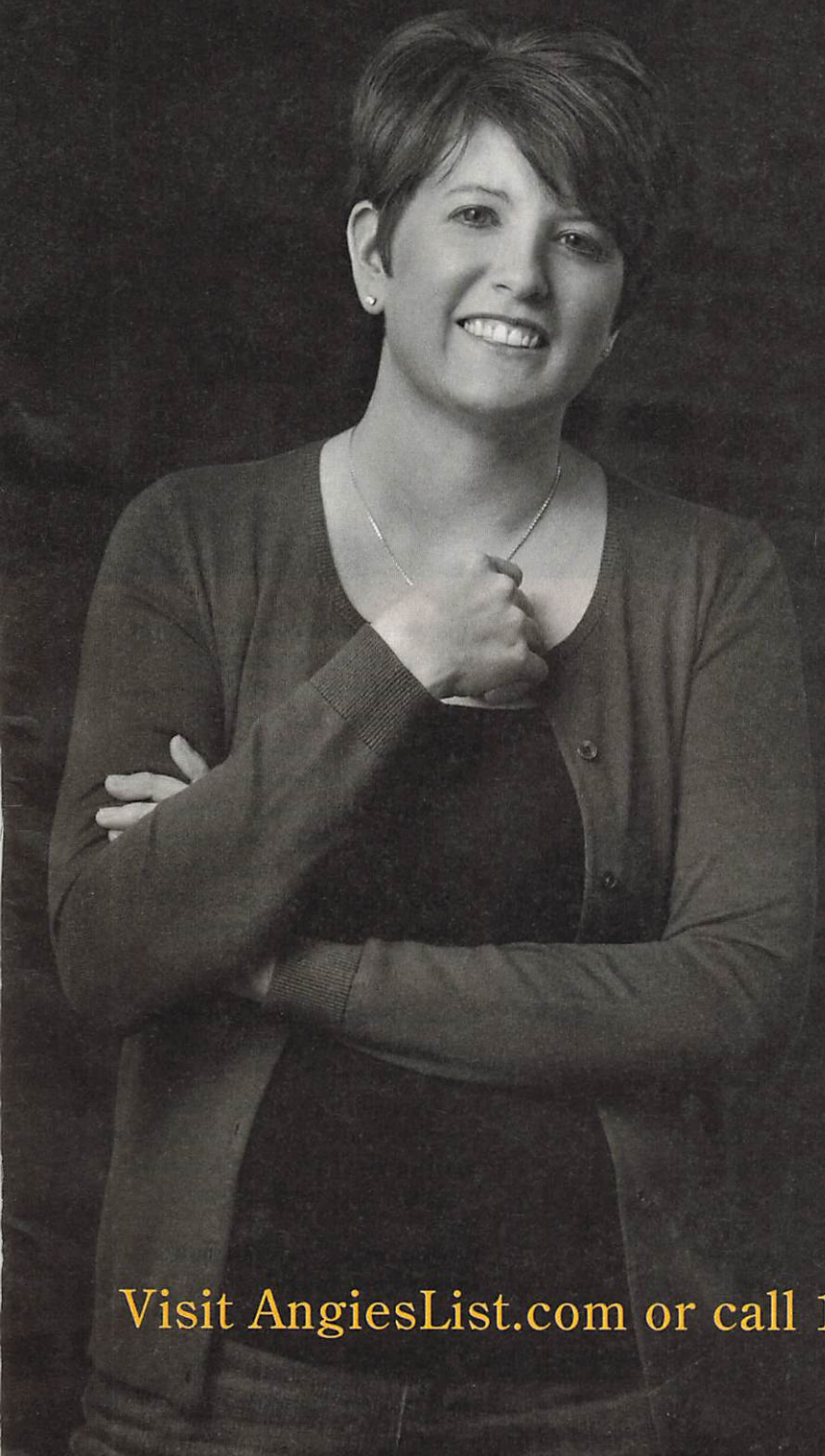
Still, many bond managers are convinced that Singapore deserves a place in their portfolios. Teresa Kong, a portfolio manager at Matthews Asia Strategic Income fund, which has a big investment in Singapore, thinks the nation will keep its interest rates low, and that, in turn, will keep bond prices stable. The country's AAA rating also gives it more room to handle future financial crises. Adds Kong, "That makes Singapore look like a shining star."

Illustration by Matt Collins for SmartMoney

"Obsessively thorough

reviews from landscaping to housekeeping to roofing to the family doctor. Written by people just like you."

Angie Hicks, Founder



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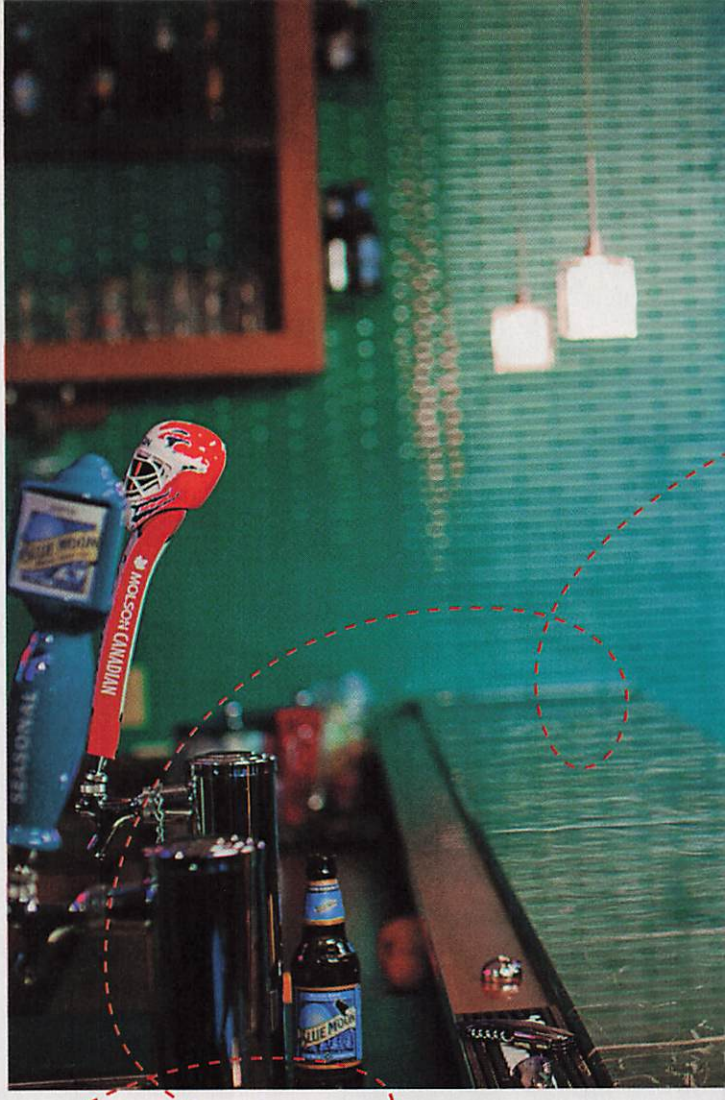
Hey, Beer Man!

Molson Coors's top brew is winning over drinkers, but is that enough to overcome a flat beer market? By Alyssa Abkowitz

MOLSON COORS BOSS Peter Swinburn can have a beer whenever he wants, of course, but recently he had good reason to crack open a cold one: Coors Light, his firm's top American brand, overtook Budweiser to become the nation's No. 2 best-selling beer. For the first time in almost two decades, a brew not made by Anheuser-Busch InBev emerged as one of America's two favorites (Bud Light remains No. 1). "I went and had a Coors Light to celebrate," Swinburn says.

Still, for all the merriment that often surrounds drinking it, the business of making beer has been pretty tough lately. Indeed, while liquor and wine sales have grown significantly over the past few years, the U.S. market for beer has been flat. It's even worse for mainstream brands, prompting some industry watchers to question whether there's a generational shift away from the beers that baby boomers and older Americans craved. Despite Coors Light's new ranking, Molson Coors, the world's seventh-largest brewer, is selling less beer now than it did in 2010. The Denver-based firm has missed profit expectations for four straight quarters; its stock was down 11 percent last year. Some analysts wonder how Molson Coors can increase its business considerably, because the firm is already the top beer seller in Canada and No. 2 in the U.S. "It's hard to grow when you already have a big part of the market," says Edward Jones analyst Brian Yarbrough.

Swinburn, a 37-year veteran of the beer business who took the helm in October 2007, is looking to tap other markets—the firm sold 50 percent more beer internationally in the first three quarters of 2011 than it did in the year-earlier period. At home, the firm has grown its craft-beer sales significantly, thanks to its successful Blue Moon brand and its recently launched Batch 19—a crisp, earthy brew based on a pre-Prohibition recipe found in the company's Golden, Colo., archives. Coors Light grabbed the No. 2 beer spot in part because of its neat bottle (the white mountains on the bottle turn blue when the beer is very cold). The company has also cut costs since Molson and Coors merged in 2005. But all those moves are small beer compared with the problem of getting people to drink a lot more of its core brands, Molson Canadian and Coors. SMARTMONEY sat down with Swinburn at the company's headquarters to discuss how he plans to woo his top customers, why his investors should stay patient and when he tasted his first Molson Coors beer.



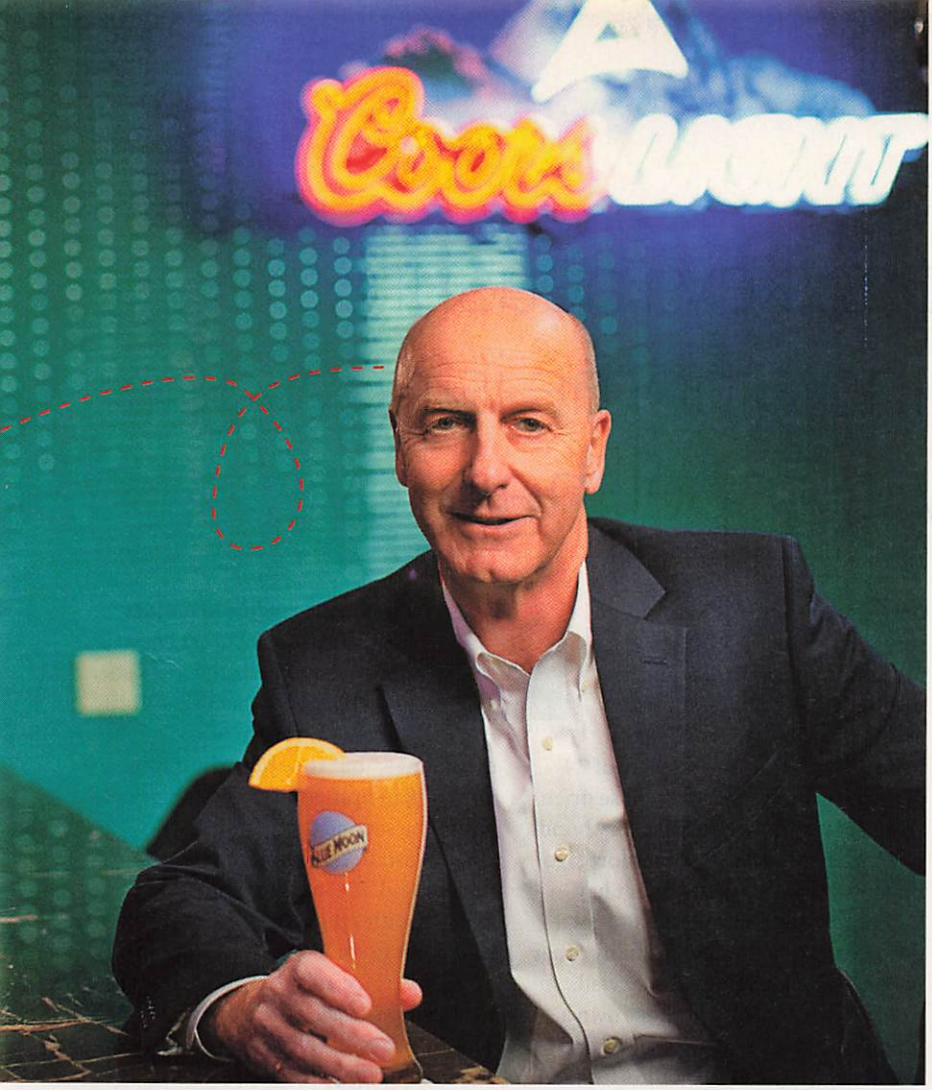
60+
Beer brands Molson Coors sells

What was it like taking the helm at the firm during the recession?
It was a bit like being hit by a tsunami. Our core consumers, who in the U.S. are 21- to 25-year-old males making between $20,000 and $40,000 a year, got hit tremendously hard. I mean, virtually overnight. It made us focus on innovation, which we had not done a good job of at all until then, and it also accelerated our move into other international markets.

Do you think the growth in those new markets will make up for what's lost here?
No. Eventually they will contribute significantly to our growth, but our core business is so big that that's what we have to continue to concentrate on.

How do you compete with other alcoholic beverages?
When you look at the needs of our

Photograph by Bryce Boyer for SmartMoney



consumers, undoubtedly there's white space that we're not filling and that is being filled to some extent by non-beer products. We need to ensure that we address the space while also making sure our existing brands are relevant. In some instances, we can address it with beers. Our new Batch 19 is a pre-Prohibition beer. It has a sort of rebelliousness about it as a brand, and we've been building off that.

So how is Molson Coors innovating to fill more of that white space?
The cold-activated bottle for Coors Light has been a tremendous success. Where we need to build is from a product point of view. We launched a brand called Leinenkugel's Summer Shandy, which was the most successful craft launch this summer. But unless you understand what needs you're satisfying, just coming out with a flavor or color or taste is like throwing mud at a wall.

The stock hasn't performed well lately. What should investors think?
In three years, we grew profits by over 30 percent, and we've paid off debt. We're throwing up twice as much cash now as we were three years ago. Understandably, what investors are saying is, 'You are a company that is very deep in some very big markets; we don't know where growth is going to come from. Until you prove to us that you can show growth, we're cautious.' That's what's happening, in a nutshell.

You grew up in Wales. When did you try your first Molson Coors beer?
When I came to the States 20-plus years ago, we brought our children to Disney World. We were here for three weeks. The first few days, I tried every beer I could, and I didn't like any. I eventually found Coors Original. That's what I drank all the time I was here. About 12 years later, I began working for them.

KEG PARTY

Molson Coors dominates much of the North American beer market. It's No. 1 in Canada, with a 41 percent market share, and has a 38 percent share of the U.S. market, behind only Anheuser-Busch InBev, maker of Budweiser.

MOLSON COORS BREWING (TAP)

PRICE
$44

EST. 2012 NET INCOME
$700 mil.

EST. 2012 EPS
$3.63

EST. 2012 P/E
12

MARKET VALUE
$7.9 bil.

*Data as of 2/9/12. SOURCE: BLOOMBERG

"By one key measure, buying a home is now a very compelling move."

BRETT ARENDS is a contributing editor at *SmartMoney*. His latest book is *Storm Proof Your Money*.

MY WIFE AND I recently sold our condo in Miami Beach to buy another one. The one we sold was a studio—or "junior one bedroom"—in a historic art deco building, a short walk from Ocean Drive and the popular News Cafe. It fetched $95,000.

Was that cheap? Expensive? People offer all sorts of conflicting opinions about any real estate move—especially right now, and especially in a shattered market like Miami. But the answer is surprisingly easy to find.

We didn't want to be landlords, but we had credible offers to rent our studio for $1,100 a month, or $13,200 a year. (A few years ago, we would have only gotten about $900 a month). Deduct $5,000 a year for taxes and condo fees and maybe $1,000 for other costs, and that leaves about $7,000 in profit. That's a net rental yield of 7.4 percent on our buyer's purchase price. In an era when 10-year Treasury bonds pay 2 percent and a 30-year mortgage may cost just 4 percent, it ain't hay. Ultimately, it seems our buyers got a good deal, and nationwide, many other people could be doing equally well.

31% Rise in U.S. rents in the past decade

Two-thirds of U.S. families own a home, says the Federal Reserve, and their home typically accounts for two-thirds of their assets. Residential investment is also a major driver of the economy. And yet for all this importance, so many people focus on the wrong things. They ask when the market will bottom out. They fret about the "shadow inventory" of unsold foreclosures. They steer clear of cratered markets like Phoenix or Las Vegas until they see a "return of confidence," but they jump into New York or San Francisco's sky-high prices without a second thought.

Real estate is a simple asset to understand. If you buy a home, you can live in it without paying rent, or you can rent it out to someone else. It has no other use. It has no other value. Rent is to housing as earnings are to stocks. The only sensible way to approach real estate is to compare the price with present and future rents. That's it.

In early 2008, I first visited Miami to report on the housing bubble for *The Wall Street Journal*. I checked out some of the brand-new superluxury high-rises downtown, overlooking Biscayne Bay. Prices had already plunged. But, as I calculated, renting one of these places still cost only half as much per month as owning one.

Dean Baker, economist at the Center for Economic and Policy Research, offers a simple rule of thumb. "Based on a historical examination of the price-to-rent ratios," he says, home prices are close to fair value when they are about 15 times gross annual rents. By this measure, Baker says, some of the hardest-hit markets—such as Detroit and Phoenix—are now very cheap, and places like Washington, Boston and San Francisco look expensive.

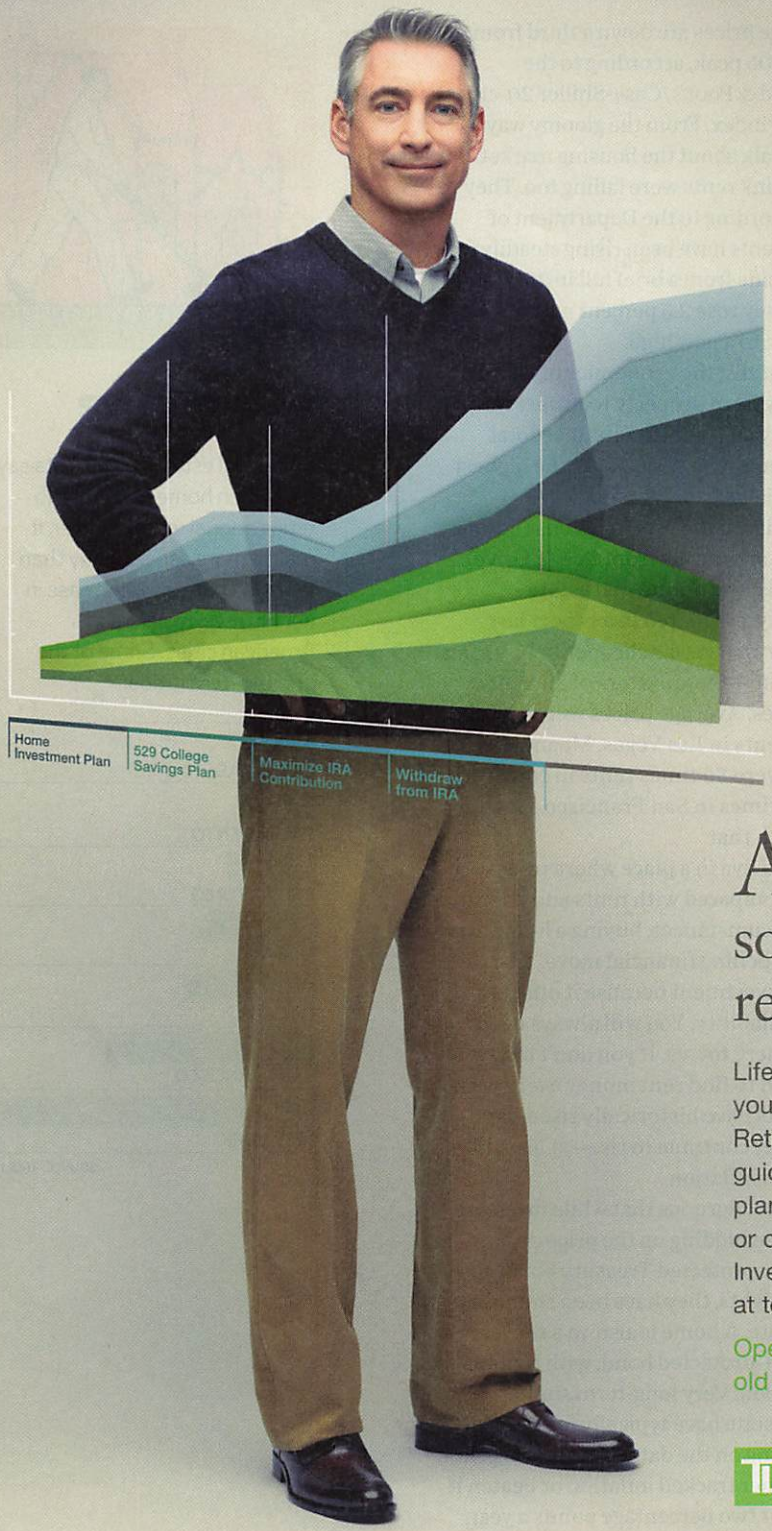
The Rent Rally

Home prices have tumbled, but rents keep climbing—a confluence that can make buying a home an attractive proposition.

SOURCES: STANDARD & POOR'S; DEPARTMENT OF LABOR

For more of Brett Arends's ROI columns, visit SmartMoney.com.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT



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Home prices are down a third from their 2006 peak, according to the Standard & Poor's/Case-Shiller 20-city housing index. From the gloomy way people talk about the housing market, you'd think rents were falling too. They're not. According to the Department of Labor, rents have been rising steadily for years, aside from a brief lull in 2009 and 2010. They rose 2.5 percent nationwide last year, to a new high.

Naturally, the economics of all this will vary from property to property. From my own admittedly anecdotal experience, you seem to get the highest rental yields from the smallest properties in the best locations (like a studio a short walk from Ocean Drive).

Trulia, the online real estate company, estimated in a report last summer that it was cheaper to buy than to rent in three-quarters of all major U.S. cities. Average prices were just six times rents in Las Vegas. Meanwhile, prices were 36 times rents in New York and 24 times in San Francisco. Good luck with that.

If you live in a place where prices are cheap compared with rents and if it fits your circumstances, buying a home now is a compelling financial move. It's a smart investment because it offsets a hidden liability: You will always need somewhere to live. If you don't buy, you will need to find rent money every year, and rents have historically risen—and will likely continue to rise—at least in line with inflation.

It's incongruous that while investors have been bidding up the price of inflation-protected Treasury bonds to crazy heights, they have been shunning real estate. A home is also, in a sense, an inflation-protected bond, with rents as the coupon. Very long-term studies of real estate have typically found—depending on the data—that house prices have either tracked inflation or beaten it by one or two percentage points a year.

If you're shopping for a home, don't ask the real estate broker what's happening to prices locally. Ask what's happening to rents. That should tell you most of what you need to know.

TIME TO BUY?

Some real estate economists say that when home prices are 15 times annual rents or lower, it makes more sense to buy than to rent. That's now the case in about three-quarters of American cities. Some of the price-to-rent ratios:

6	LAS VEGAS
8	SACRAMENTO
10	SAN ANTONIO
13	MIAMI
15	CHICAGO
24	SAN FRANCISCO
36	NEW YORK

SOURCE: TRULIA

ILLUSTRATION BY DAN PAGE

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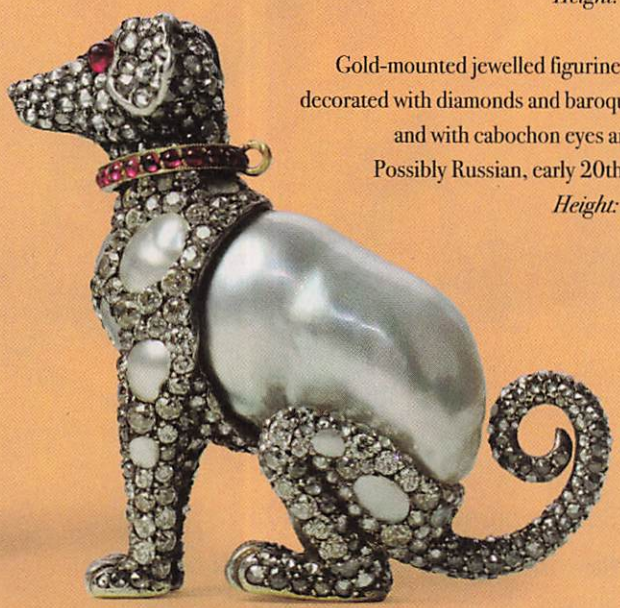
Gold and silver model of a bicycle, mounted as a brooch, with rotating wheels. English, circa 1920.
Length: 1 ¼ inches

Gold-mounted oval blue guilloché and white enamel frame, the bezel set with rose diamonds. By Fabergé, workmaster Michael Perchin. St. Petersburg, circa 1900.
Height: 3 inches



Gold-mounted jewelled figurine of a dog decorated with diamonds and baroque pearls, and with cabochon eyes and collar. Possibly Russian, early 20th century.
Height: 2 inches

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PICK

Stocks | 30
Small stocks that are poised to get bigger.

ETF Watch | 32
What do ETF firms and grocers have in common?

Play It Safe | 36
Two ways to enter the world of private equity.

Illustration by Francesco Bongiorni for SmartMoney

Don't Forget The Small Fries

With all the focus on big-name stocks, some pros say small-cap names have become attractively priced.

By Reshma Kapadia

WHILE SOME investors have sought shelter in companies like Procter & Gamble or Johnson & Johnson because of their steadiness and rich cash cushions, a group of investment managers has been looking for comfort at the other end of the market, with the likes of US Ecology and McGrath RentCorp.

Never heard of those firms? Well, that's part of the allure for Seth Reichler, managing director of Snyder Capital Management, which manages $1.7 billion. Reichler has been "backing up the truck" on some smaller companies after lightening up on them as recently as 18 months ago. These firms not only are relatively unknown but also tend to be overlooked by investors who are searching for comforting dividends or hefty cash piles. Yet, 25 percent of the stocks in the Russell 2000 index pay a dividend of more than 2 percent. The best part: Smaller companies are more likely to possess a quality that investors always cherish—fast growth in sales and profits.

73% Return for small-cap stocks since 2002

Many analysts expect the U.S. economy to gain a paltry 2 percent this year—and that's good compared with forecasts of a recession in Europe. However, analyst projections for the small firms that make up the Russell 2000 are high. They're expected to increase profits, on average, by almost 30 percent, five times as much as firms in Standard & Poor's 500-stock index. "That kind of double-digit profit and sales growth is hard to come by right now," says Steven DeSanctis, head of U.S. small-cap strategy at Bank of America Merrill Lynch, who expects smaller companies to generate returns close to their historical average of about 11.5 percent.

With their better growth prospects, such small fry also make very good acquisition targets. Larger companies often look for ways to jump-start their own growth, and they are sitting on almost $1 trillion in cash, says Paul Hogan, comanager of the FAM Equity-Income fund. Although many big-name companies are swimming in record profits lately, much of their recent growth has come from cost-cutting and productivity improvements; many smaller firms are generating growth through sales increases that are probably more sustainable, says Michelle Stevens, small-cap value portfolio manager at Baird Investment Management.

To be sure, small caps are generally riskier propositions. Even though they might not generate much of their business abroad (only 18 percent, on average, compared with 35 percent for larger firms), any foreign scare can rattle investors and hurt small stocks. In addition, when the market swings into one of its risk-aversion modes, small companies get hit hard—often indiscriminately. That's one reason investors are flocking to a particular type of small firm: The kind with plenty of cash and profits and with a dominant market niche (in the market's lingo: a quality firm). Many of these stocks can be bought on the cheap these days as investors cash out of small-cap ETFs and mutual funds. "The market brings you names as the baby is thrown out with the bathwater," says Reichler, who has been picking up plenty of quality babies of late.

39% Return for large stocks

Of course, part of the reason investors favor small caps is their long-term record. A $10,000 investment in the Russell 2000 a decade ago would have grown to more than $17,000 last year; in a large-cap index, to less than $14,000. But small firms lagged larger stocks in 2011, with the Russell 2000 down 4 percent and the S&P 500 up 2 percent, after dividends. Now, the highest quality stocks—those companies that get the most profits out of their capital—are trading at a 6 percent

Photo-illustration by William Duke for SmartMoney

discount to large companies, according to fund firm Heartland Advisors. Things look good for the rest of small caps, as well. By just about every valuation metric, smaller companies are trading below their historical averages. To some managers, it seems pretty clear: "If you want to get good growth and stability, you can get that in small caps, in spades," says Mark Coffelt, portfolio manager for Empiric Core Equity fund. Just don't tell everyone about it.

For more small-stock picks, go to SmartMoney.com.

Smart Picks

Some small-cap stocks, including the following, are growing their profits fast and trading at an attractive price, analysts say.

MCGRATH RENTCORP (MGRC, $31)
During the recession, the company, which rents modular classrooms to crowded schools, bought a tank business that stores hazardous waste and natural gas. That business is now the largest contributor to the firm's operating income and is "growing like a weed," says Paul Hogan, comanager of the FAM Equity-Income fund.

MARKET VALUE $767 mil.
EST. 2012 EPS $2.03
EST. 2012 P/E 16

US ECOLOGY (ECOL, $19)
This firm is also profiting from refuse; it owns five of the country's 22 hazardous-waste landfills. The company's business is pretty stable, analysts say, and with regulation likely to become more stringent, US Ecology could raise its prices in the future. Analysts say the firm's 3.7 percent dividend yield makes the toxic-waste business look even better.

MARKET VALUE $356 mil.
EST. 2012 EPS $1.08
EST. 2012 P/E 18

THE ANDERSONS (ANDE, $43)
The company leases railcars and operates grain elevators and ethanol plants. The stock trades at just 10 times expected 2012 profits, says Paul Magnuson, manager of the NFJ Small Cap Value fund. Andersons also has almost doubled its dividend since 2009. "It doesn't fit into any one category. I think it is neglected," Magnuson says.

MARKET VALUE $793 mil.
EST. 2012 EPS $4.47
EST. 2012 P/E 10

RENT-A-CENTER (RCII, $37)
The rent-to-own retailer is poised to benefit from an improvement in the U.S. economy, says Michelle Stevens, a portfolio manager at Baird Investment Management. The stock is attractively priced at 11 times this year's expected profits and has no debt, Stevens says.

MARKET VALUE $2.0 bil.
EST. 2012 EPS $3.10
EST. 2012 P/E 11

LIFE TIME FITNESS (LTM, $47)
The health club operator attracts a loyal clientele with its country-club feel and extensive workout options. Its members actually increased their spending during the recession—"evidence they have captured the most attractive part of the market," says J.B. Taylor, manager of the Wasatch Core Growth fund. Plus, he expects the firm to triple its club count. The stock trades at 18 times 2012's expected profits.

MARKET VALUE $2.1 bil.
EST. 2012 EPS $2.75
EST. 2012 P/E 18

SOURCE: BLOOMBERG

ETF Taste Test

Rather than licensing a big-name index, ETF firms are creating their own—with mixed results.

By Ian Salisbury

AT THE GROCERY STORE, consumers face the choice all the time: buy brand-name peanut butter or the cheaper store brand that may—or may not—be as good. These days investors are starting to face a similar dilemma. Some of the major sellers of exchange-traded funds—those baskets of securities designed to follow a well-known benchmark like Standard & Poor's 500-stock index—are creating products designed to track their own private-label indexes.

$1.1 tril.
Amount now invested in exchange-traded funds

Van Eck now markets more than a dozen such ETFs, and several other firms, including giant iShares, are working on launching their own offerings. These new "index" products, which are designed to track benchmarks that the companies themselves devise, target anything from the biotech sector to small German stocks. The incentive is clear, say industry watchers: ETF firms can cut out the royalty payments—in some cases amounting to millions of dollars—to brand-index owners like Standard & Poor's if they don't use their products, and can then pass on the savings to shareholders. But while these private-label ETFs can be a bit cheaper to own, critics say they pose their own set of problems.

In 2011, for example, Van Eck's $674 million Market Vectors Brazil Small Cap ETF lost 27.5 percent, a return that was 3.5 points worse than the iShares MSCI Brazil Small Cap Index ETF, which uses a benchmark from the well-known analytics firm MSCI. The difference between these two Brazil-tracking ETFs? Van Eck's product screens out the smallest Brazilian stocks and includes others, such as Colossus Minerals, a firm that owns a gold mine in Brazil but has its headquarters in Toronto, 4,000 miles away. Adam Phillips, managing director at Van Eck, says traditional indexes are often bogged down by their inclusion of tiny and rarely traded stocks. While such indexes might give investors the broadest possible picture of the market, they also can be costlier to trade.

But some critics say they're worried that ETF companies could simply tweak their own performance benchmarks whenever it's convenient for them—investors could get the short end of the stick, and not even know why. Phillips says the rules behind how stocks are chosen for its in-house indexes are clear, and portfolio managers don't get any privileged information about changes. Nevertheless, says Paul Amery, editor of indexing website IndexUniverse.eu, "it's an obvious potential problem."

TERM OF THE MONTH: PARANORMAL

"It's as if the Earth now has two moons instead of one," wrote Pimco co-chief investment officer Bill Gross in a recent investor letter. The combination of near-zero interest rates at home and debt woes abroad are "paranormal," unlike anything investing pros have seen before, he added, and they have heightened the risk of a financial mess this year. David Darst, chief investment strategist at Morgan Stanley Smith Barney, isn't anywhere near as pessimistic as the widely followed Gross but says many weary investors feel disoriented, almost like they're having an "out-of-body experience."

Illustration by Ryan Etter for SmartMoney

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"Investors: Sometimes the next big thing is the current big thing."

JACK HOUGH, a former Wall Street adviser, is the author of *Your Next Great Stock.*

STARBUCKS HAS been the subject of punch lines about chain store ubiquity at least since the summer of 1998, when *The Onion*, a satirical newspaper, ran a headline about the opening of a new Starbucks inside the restroom of an existing one. Shares have since gone from hitting new highs to hitting much higher ones, a plunge during the Great Recession notwithstanding. Investors who held straight through have made about five times their money—not bad for a chain that was already everywhere.

Of course, Starbucks wasn't everywhere back then. It has since opened thousands of stores in the U.S. and abroad (the tiny Caribbean island of Curaçao just got its first), and it has learned how to push more beans and brewed coffee by teaming up with grocers and fast-food chains.

If the world is finally saturated with Starbucks coffee, it isn't showing. Its quarterly sales recently jumped 9 percent, not counting the contribution of recently opened stores.

The lesson for investors: Sometimes the next big thing is the current big thing, and there's nothing wrong with buying a stock that's trading higher than ever. In fact, all else held equal, new highs are a promising sign. Stocks reaching them tend to beat the market in subsequent years, according to research by Thomas George at the University of Houston and Hwang Chuan Yang at Singapore's Nanyang Technological University.

Certainly, not all highfliers are good buys. Some are too expensive. Others are at risk of slowing down. For stock investors, it's increasingly important to be able to predict which winners will keep winning, because the stock market is closer to an all-time high than it might seem. Standard & Poor's 500-stock index needs to climb about 16 percent from its recent level to retake its October 2007 high. But it weights companies by their stock market values, so the decline of a handful of giant banks has held back the S&P 500's overall returns. Most stock investors weight their holdings more or less equally, not by market value; hence, a better representation of the choices they face is the S&P 500 Equal Weight index. It's only about 3 percent away from hitting a new high.

73% Amount Apple's sales increased in its most recent quarter

To buy high and sell higher, forget knowing which companies seem to have room to expand. Clever managers make room. What matters is the return companies earn on the capital they invest. Starbucks has produced a return on invested capital of about 20 percent, on average, over the past five years, and greater than 25 percent over the past year. Returns that strong suggest management isn't nearly out of ideas on how to sling more lattes.

Second, look for firms with the financial capacity to expand. S&P 500 companies are clutching record

Buy High, Sell Higher These firms' stock prices recently hit all-time highs, and their financials suggest they'll continue to soar.

Company (Ticker)	Price ($)	Market Value ($ bil.)	Return on Invested Capital (%)	Free Cash Flow Yield (%)	P/E*	Sales Growth (%)**	Long-Term Debt/Capital (%)
Apple (AAPL)	493	460	46	8.9	12	73	0
Bed Bath & Beyond (BBBY)	60	14	24	6.4	15	7	0
Cummins (CMI)	121	23	32	5.2	12	19	10
International Business Machines (IBM)	193	224	36	5.8	13	2	44

Data as of 2/9/12. *Based on forecast EPS for current fiscal year. **Most recent quarter.

SOURCES: FACTSET; THOMSON REUTERS

For today's stock analysis from Jack Hough, visit smartmoney.com/stockscreen.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

amounts of cash. Some prosperous firms borrow to take advantage of low interest rates, so that's not always a good indication; watch for those that have plentiful free cash coming in.

128% Gain in Starbucks shares over the past two years

Third, of course, is a reasonable valuation. Starbucks shares fetch a fully caffeinated 27 times projected earnings, versus a median of about 15 times for S&P 500 companies. The firms listed below are less expensive relative to profits and bring in plenty of free cash. Each recently hit an all-time-high stock price, but each also seems to have plenty of good growth left, judging by the high returns on invested capital.

Apple recently had the largest stock market value in America, but that doesn't make it expensive. Its shares sell for 12 times this year's earnings forecast, and the company holds enough cash and investments to buy, say, McDonald's. Investors looking for signs of a slowdown won't find it in the iPhone maker's recent quarterly report. Sales jumped 73 percent, and earnings beat Wall Street forecasts by so much, it looked like a misprint.

Despite the depressed housing market, Bed Bath & Beyond isn't struggling to sell furnishings. Its sales at long-standing stores recently rose 4 percent, and management boosted its earnings-per-share forecast, calling for growth of 26 to 28 percent in the recently ended fiscal year. It has more than 1,000 stores, but its thriving 61-store Buy Buy Baby chain has room to grow. Shares are getting scarcer; Bed Bath bought back 6 percent in the past three quarters.

Asked in November why he bought IBM at an all-time high, Warren Buffett said he has done the same in the past with railroads and insurers. The purchase has made around 15 percent so far for Berkshire Hathaway, and IBM shares still look reasonably priced, trading at about 13 times this year's forecast earnings. Thanks to a focus on data centers and other high-margin work, IBM turns about 20 cents of each sales dollar into operating profit, versus an average of less than 8 cents for other diversified computing companies.

Cummins makes engines and related components used in big trucks, machines and power generators. The stock sells for about 12 times earnings, even after the price has increased more than 10 times in a decade. More than half of the firm's sales come from abroad, and China is a key market. Economic growth there recently hit the slowest pace in two and a half years: 9 percent. That's still triple the U.S. rate. Cummins isn't struggling: Its sales shot 36 percent higher last quarter.

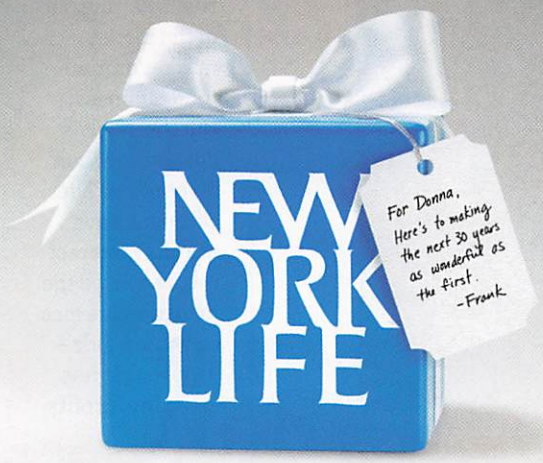
BACK IN THE HIGH LIFE AGAIN

The S&P 500 must climb 16 percent to reach its October 2007 peak hit before the global financial crisis, but some pockets of the market have climbed back to the top.

▶ Little Guys
The S&P SmallCap 600 index reached a new high in February. Small-company stocks tend to outperform large-company ones over long time periods, studies show.

▶ Pantry Shares
The consumer staples sector of the S&P 500 rose to a record level near the end of 2011, driven by demand for steady stocks.

▶ All Things Equal
The S&P 500 Equal Weight index was recently just 3 percent away from the high it hit in May 2011. It has beaten the standard 500 index, which weights companies by market value, by close to two percentage points a year during the past two decades.



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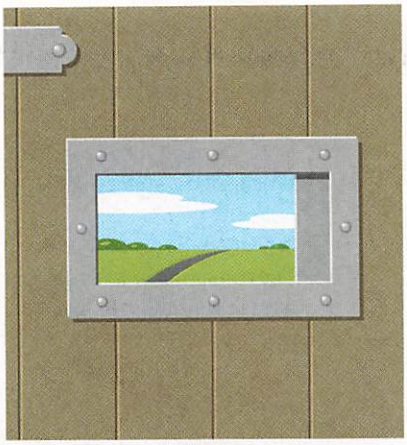
Going Private

One presidential candidate made a fortune with private equity. How investors could replicate the success.

By Elizabeth O'Brien



PLAY IT SAFE

Buy Some Stock

RISK LEVEL 25

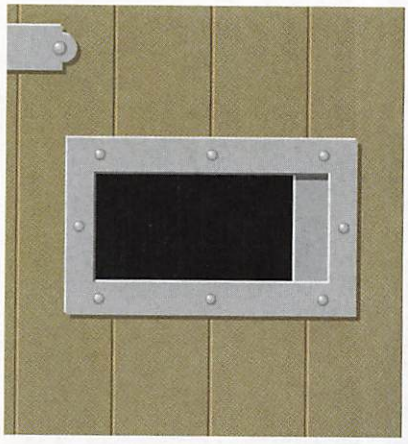
Long before it became a campaign issue, private equity was known for being a risky but potentially profitable venture. There's a surprisingly safe way for members of the 99 percent club to invest in it. Many private-equity firms use money raised from investors and borrowed from banks to buy struggling, mature companies. In some cases, private-equity firms fire workers or occasionally shutter a business entirely, but they also make many companies more profitable. The easiest and cheapest way to get in is to buy shares in a handful of publicly traded firms, such as Blackstone (BX) or Kohlberg Kravis Roberts (KKR). Shareholders own part of the parent company, not the private-equity funds themselves, so they probably won't see the giant windfalls that the funds sometimes produce. But their performance does influence the firm's share price, says Campbell Anthony, research analyst at investment firm Macquarie.

GO FOR BROKE

Buy Into a Fund

RISK LEVEL 85

Got at least a million bucks handy? Then a private-equity fund might be for you. Your money will be put into a portfolio alongside cash from hedge funds, pension funds and a lot of wealthy individuals. That principal is used to buy up businesses, and you make money when—or if—the fund's underlying businesses are sold for a profit. But that doesn't happen on any predictable timetable. This isn't like a stock investment, either: Once you turn your cash over, you can't sell; you get only whatever profits the fund makes. So why take all that risk? From 1993 to 2005, private-equity funds beat the stock market by three to four percentage points a year, on average, according to Steve Kaplan, a professor at the University of Chicago's Booth School of Business. One other consolation: You won't have to pay exorbitant fees if the fund is a dud. Private-equity managers often won't take their full fees unless they make at least an 8 percent annual return.



TOLD YOU SO...

In "China's Inflation Fears" (March 2011), we bet that consumers in China would have a strong appetite for Pizza Hut and KFC, the fast-food giants run by Yum Brands (YUM). The stock is up 32 percent since then, in part because of Yum's continued push into China: 43 percent of the firm's revenue comes from the world's No. 2 economy.

...OOPS

In April 2011's "Stocks: The New Better Bonds," we said Federated Investors (FII) would benefit from weaker rivals getting out of the money market mutual fund business. But the stock is down more than 30 percent. The company says ultralow interest rates have led the firm to waive fees on some funds—a move that has eaten into profits.

Illustrations by Scott Roberts

Defying Gravity

These stocks have zoomed up during the past year. Which one has the best chance to continue to soar?

By Elizabeth O'Brien

BUY

Apple

(AAPL, $493)

THE STOCK OF THE WORLD'S biggest tech firm has risen 38 percent in the past year, and "it's still not an expensive stock, which is mind-boggling," says Keith Goddard, comanager of the $26 million Capital Advisors Growth fund and a shareholder. Apple trades at about 12 times expected 2012 profits, slightly cheaper than the broader market. Goddard estimates that the Cupertino, Calif., behemoth can grow profits 15 to 20 percent a year for a couple of years, even without a new breakthrough product. Plus, China represents a "massive" opportunity for the iPhone, says Michael Lippert, portfolio manager for the $316 million Baron Opportunity fund and a shareholder.

SELL

Chipotle Mexican Grill

(CMG, $376)

792% Chipotle's stock gain since its 2006 IPO

AS THIS DENVER-BASED PURVEYOR of upscale burritos has continued to open outlets and drive more business to its existing stores, its stock has surged nearly 50 percent. But some analysts say shares are pricey for a maturing company, at 43 times 2012's expected profits. "They're doing a lot of things right, but it will be challenging for them to meet Wall Street's estimates," says Andy Barish, managing director at investment bank Jefferies. Rising food prices also could eat into profits. A spokesperson says Chipotle has "plenty of room" to grow, with as many as 165 new restaurants set to open this year.

HOLD

Lululemon Athletica

(LULU, $66)

PEOPLE WEAR ITS ATTIRE while performing the downward-facing dog, but this Vancouver, British Columbia–based retailer of yoga clothing has had an upward-soaring stock: It has risen 61 percent in the past year. The company posted 74 percent growth in operating profit over its past four quarters, but some analysts say the stock's price-to-earnings ratio—50 times 2012's expected earnings—assumes Lululemon can keep producing the same type of profit punch. Liz Dunn, senior analyst for investment firm Macquarie, says she'd consider buying the stock at 30 times 2012 earnings. John Currie, Lululemon's chief financial officer, says the firm is focused on elevating its brand through "innovative technical apparel and providing a best-in-class guest experience."

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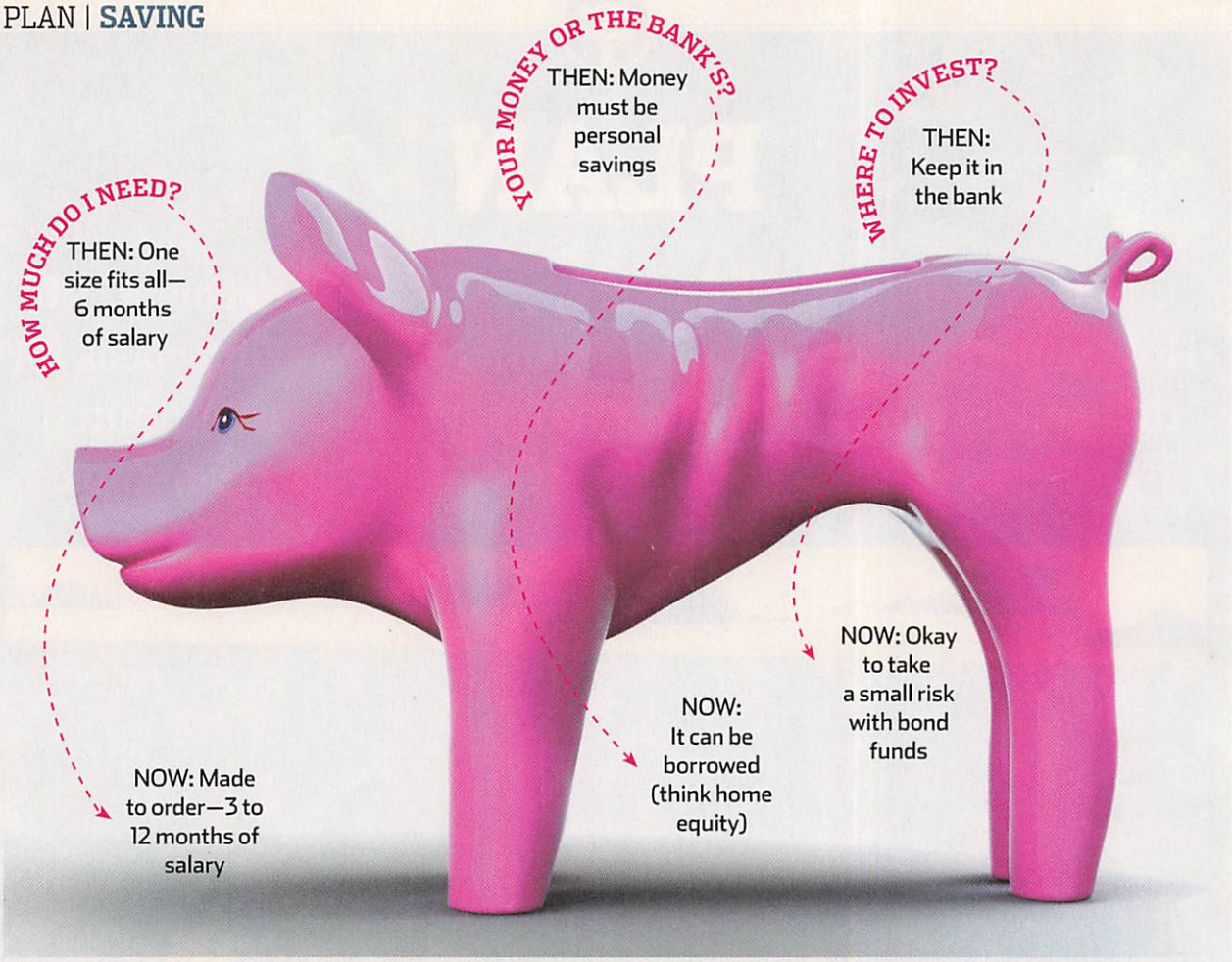
Illustration by Francesco Bongiorni for SmartMoney


HOW MUCH DO I NEED?
THEN: One size fits all—6 months of salary
NOW: Made to order—3 to 12 months of salary
YOUR MONEY OR THE BANK'S?
THEN: Money must be personal savings
NOW: It can be borrowed (think home equity)
WHERE TO INVEST?
THEN: Keep it in the bank
NOW: Okay to take a small risk with bond funds

Fatten Your Reserves

Fewer Americans than ever are keeping a stash of "just in case" cash on hand. The surprise: They may do better saving in a different way. By Charles Passy

IT MAY BE a cornerstone of financial planning—the idea of maintaining an emergency cash fund for a rainy day. But according to some recent surveys, that kind of thinking may have about as much appeal of late as the mandate to eat lots of green leafy vegetables: Another helping of kale, anyone?

A 2011 poll by Bankrate.com showed that just 24 percent of Americans held the classic six-month cushion of income advisers recommend, and almost a quarter had no savings whatsoever. Perhaps even more telling—especially in the current era of economic turmoil and gnawing unemployment—is that building up cash reserves doesn't rank particularly high on most Americans' financial to-do lists: In a recent survey from ING, reducing debt was the top priority of 54 percent of respondents; setting up an emergency fund ran a distant second, at 24 percent.

There's an obvious reason for the anti-savings sentiment, say financial observers: In a penny-pinching economy, Americans are just too pressed paying for basic living expenses—meaning that a repair-the-roof kitty starts to feel like a luxury. "It's great if you can afford it," says Lee Munson, chief investment officer of Portfolio, an advisory firm in Albuquerque, N.M. But even if Americans were psyched up to save, the banks and markets aren't making it all that appealing, given the near-zero percent interest-rate environment. Little wonder that those who have actually funded their emergency fund are starting to question if it's really worth it. "My clients who have money sitting in cash reserves are extremely frustrated," says Larry Rosenthal, president of Financial Planning Services in Manassas, Va.

Ironically, this frustration may be paying off, say financial experts, in that it has led to a radical rethinking of the emergency fund—one that acknowledges the difficulty of saving and that offers alternative solutions to a cash reserve (or, for those who have already built up their fund, a tweak to their investment strate-

PERFECT PORTFOLIO ILLUSTRATIONS BY QUICKHONEY FOR SMARTMONEY

Illustration by Ryan Etter for SmartMoney

gy). For starters, many financial advisers are reconsidering the once-sacrosanct "six-month rule": In a two-income family, a three-month cushion may be more than enough; conversely, in a one-income family where the breadwinner is a top executive, nine months to a year may be more realistic, because it may take the breadwinner that long to find a new job should he become unemployed. The bottom line? It's not a one-size-fits-all fund, says Rosenthal.

Indeed, it may not be a "fund" at all in the traditional sense: An increasing number of financial pros say investors can consider other means, including tapping a home-equity line of credit or borrowing against a life-insurance policy. It's not that advisers are encouraging clients to be reckless with their money and then pile on the debt in an emergency. Rather, it's that money conceivably slated for a reserve fund can be used instead for financial matters of arguably greater precedence—such as paying off a high-interest credit card or funding a 401(k) plan to earn the maximum employer match. At the very least, experts say, investors can't see the reserve fund as their only priority. "I would equate it to having multiple fishing lines in the water," says Bankrate.com senior financial analyst Greg McBride.

Then there's the matter of those near-zero percent savings accounts: Who's to say that's the only option when it comes to a reserve fund? While no financial pro suggests putting emergency cash in, say, small-cap stocks, more than a few believe bond funds with low volatility are a reasonable alternative—at least for a portion of a plentiful reserve. "You could tier it," suggests Bob Fragasso of Fragasso Financial Advisors in Pittsburgh, with different accounts at different risk levels.

All this is not to suggest that the traditional reserve model—a half-year of salary, invested in an FDIC-protected bank product—doesn't continue to have plenty of fans in the financial community. Of course, that may not be what the 76 percent of Americans who lack that rainy-day stash want to hear, but that's precisely the point, argues McBride. "Americans need to buckle down," he says.

Perfect Portfolio

25-year-old carefree single

At this age, time is an asset. Experts still say 20-somethings should invest the majority of their savings in stocks, which tend to outperform bonds over the long term. Dean Zayed, CEO of Prizm Financial Advisors in Wheaton, Ill., says the low interest rates on U.S. bonds make them risky, because bond prices fall when interest rates rise. "We use emerging markets bonds, which also provide a nice currency hedge," he says.

- 60% U.S. stocks
- 25% Foreign stocks
- 10% Bonds
- 5% Cash

50-year-old couple with two kids in college

Middle-aged parents face the difficult task of juggling short- and long-term goals. Experts suggest keeping enough cash to cover tuition bills to avoid being forced to sell stocks while they're down. Jeff Bucher, president of Citizen Advisory Group in Perrysburg, Ohio, says it's important to keep investing new money in retirement accounts. And he recommends keeping the fixed-income portion of a portfolio in short-term bonds.

- 50% Stocks
- 10% Alternatives
- 20% Bonds
- 20% Cash

70-year-old multimillionaire couple with lots of potential heirs

It's an enviable position: being confident that you won't outlive your money. If you're investing with heirs in mind, experts suggest foreign stocks and bonds. Alternatives help balance out the market's volatility. Bucher says exchange-traded funds offer exposure to an array of alternative assets, like commodities, master limited partnerships or real estate investment trusts.

- 50% Stocks
- 15% Alternatives
- 25% Bonds
- 10% Cash

Note that these allocations may shift as market conditions change. To see updates on our portfolios, including recommended asset mixes for other stages of life, go to smartmoney.com/perfectportfolio.

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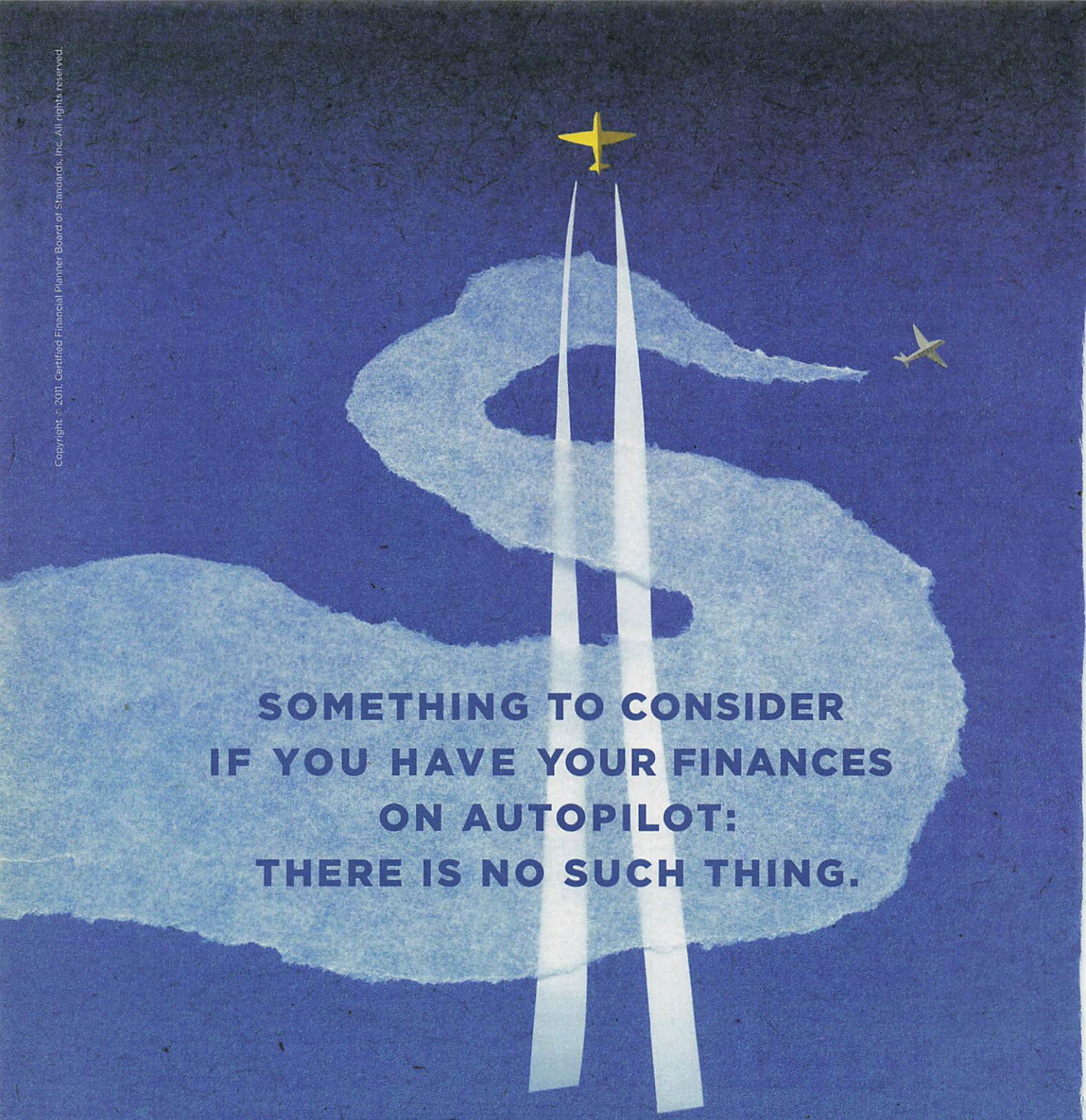

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Getting your retirement financial plans in order can seem daunting — but it doesn't need to be. Whether retirement is decades away or just around the corner, there are a few important steps that everyone should take to ensure they accrue the maximum savings possible. Here are five key strategies that can help you build toward the retirement lifestyle you desire:

CALCULATE YOUR NEEDS FOR RETIREMENT

The amount you need to live comfortably during retirement shouldn't be guesswork — and qualified advice can make all the difference in achieving your goals. Go to letsmakeaplan.org to find a Certified Financial Planner™ professional who can help you get a realistic view of how much you need to put aside for retirement, as well as help you with personal finance strategies for budgeting, tax planning, estate planning, investment management and insurance.

START SAVING NOW

You can't begin saving too early because of the benefits of compound interest. For example, $100 a month invested in an account with a 6 percent interest rate, compounded monthly, will increase to $100,451.50 over three decades. However, many people wait for a life-changing event — such as a wedding, baby or death of a spouse — to get their personal finances in order. And they invariably say they wish they had started earlier. The right time to start retirement planning is always the same: today.

CHECK WHERE YOUR RETIREMENT FINANCES STAND TODAY

The percentage of workers "not at all confident" about having enough money for a comfortable retirement grew from 22 percent in 2010 to 27 percent in 2011, the highest level measured in the 21 years of the Retirement Confidence Survey, an annual study conducted by the Employee Benefit Research Institute (EBRI). To become confident about retirement, you need an objective look at where your retirement planning is today. Calculate what you currently have saved for retirement, including any pension benefits you may receive from employers. Also, factor in the amount you can expect to receive from Social Security at retirement, which you can find through the Social Security Administration's website. If the numbers seem disappointing, don't get discouraged: Speak with a CFP® professional who can work with you on adjusting your approach to better meet your anticipated needs.

STAY ON TOP OF YOUR FINANCES

People have many different plans for retirement — some people wish to pursue new interests and travel while others expect to work for pleasure or necessary income. To give yourself maximum flexibility, start saving as soon as you can. Remember, the economy can be volatile, your investment returns will vary from year to year and inflation will impact your finances. Because of all this, a sound retirement plan takes a diversified approach and requires regular "checkups" to make sure you're on track with your goals.

CONSIDER WHAT YOU'LL NEED FOR THE LONG TERM

Retirement planning is becoming more complex because Americans are living longer than ever. Your savings may need to last for many decades and you may encounter long-term medical costs not currently covered by Medicare or standard supplemental policies.

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Charitable Gifts Give Back

More people are seeking investment income from an unlikely source: their favorite nonprofits. Why "gift annuities" are on the rise. By Reshma Kapadia

IT'S THE GIFT THAT keeps on giving—and that even gives back to the benefactor. In growing numbers, philanthropic advisers are trumpeting so-called gift annuities as a win-win proposition, because they let donors support their favorite causes and get a decent income stream in return. So why are even some ardent annuity fans pausing on this one?

The annuities, which charities offer only to Americans over the age of 60, allow the holder to make a big charitable contribution of, say, $100,000. In return, a donor gets a tax deduction on the gift as well as a monthly payout for life from the charity. And that payout is relatively generous—recently averaging almost 6 percent annually for a 75-year-old, beating the going rate of 0.76 percent for a one-year CD or the 2 percent yield on a 10-year Treasury bond. Add the market's volatility to the mix, and that guaranteed income stream might sound even better.

Still, only 17,000 gift annuities were issued in 2009, the most recent data available. And though one planned-giving specialist says his nonprofit clients have seen a "noticeable" increase in gift annuity participation in the past two years, experts say the low numbers are no surprise, since the annuities have some not-so-obvious drawbacks. These contracts are between a donor and the charity for life, cautions Tony Martignetti, managing director of Martignetti Planned Giving Advisors, so today's investors would lock in historically low rates and could be at risk if the charity founders in the future. While insurers, the traditional issuers of annuities, are rated by credit agencies, helping buyers gauge their financial stability, no such agencies exist for charities.

The American Council on Gift Annuities, a nonprofit that suggests the rates charities use for these products, recommends checking the value of a charity's gift reserve and financial assets. Lindsay La-Pole, the council's president, says it's ideal for donors to have a long relationship with the group. A gift annuity, he says, "is not something you just wake up one morning and decide to do." Nor are they optimal for those simply looking for the best return. While rates are favorable compared with those of CDs and Treasurys, payouts typically lag those of traditional annuities by as much as three percentage points. And strategies like donating appreciated stock or setting up a charitable remainder gift trust may offer more bang for the buck, say planners.

15
States requiring annual disclosures for charitable annuities

But if estate tax laws get more restrictive, as many now predict, advisers say there may be an uptick in interest in gift annuities, which are easy to set up and not loaded with the sales charges common to many traditional annuities. Says Dan Nigito, a specialist on planned giving at Merion Wealth Partners: "If you want to give to charity, the income stream created by these is nothing to sneeze at."

Illustration by Ryan Etter for SmartMoney

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"MLPs inspire many income seekers to drool. But foolproof, they're not."

GLENN RUFFENACH is editor of *The Wall Street Journal's* Next section, a guide to retirement planning and living.

I CAN'T HELP BUT wonder if the insatiable appetite for income in later life is starting to cloud people's judgment. Case in point: master limited partnerships.

MLPs have taken on the aura, seemingly, of an all-but-foolproof investment: a conservative play with great tax benefits and—most important—yields of 6 percent or more. With the 10-year Treasury offering yields of about 1.9 percent, it's no wonder I've been getting reader e-mails like this one: "I have been heavily invested in master limited partnerships for the past three years, and can't understand why everyone else, especially seniors like myself, is not. In my opinion, there is no better place for taxable money than in MLPs."

Okay, let's take off the rose-colored glasses.

It's easy to see why products like MLPs (or municipal bonds or preferred stock), which appear to offer sweet returns with little risk, can inspire drooling among retirees and pre-retirees hungry for steady income. But don't let a craving for cash flow keep you from exercising due diligence—because foolproof, they're not.

First, a quick primer. MLPs are publicly traded companies that, for the most part, transport and store oil and natural gas (think: pipelines and holding tanks). A general partner runs the business, and the limited partners are investors. That structure results in two big benefits for holders: sizable payouts (an MLP doesn't pay corporate taxes, which means bigger distributions), and handsome tax breaks (distributions are considered a "return of capital," which means no taxes on most returns until the investor sells the MLP).

Perhaps the best reason to include MLPs among your holdings is their potential for growth. New methods of unlocking petroleum and natural gas from shale formations are pumping up energy production. One recent study from the Interstate Natural Gas Association of America projects spending of about $250 billion between now and 2035 to meet infrastructure needs. "That's a good story going forward," says Kevin McCarthy, head of Kayne Anderson Capital Advisors' four closed-end funds that invest in MLPs.

Indeed it is. So...what's not to like?

Gravity: MLPs are, in effect, stocks. And stocks can go down. Between July 2007 and December 2008, when the S&P 500-stock index fell 41 percent, master limited partnerships, as measured by the Wells Fargo MLP index, did even worse, dropping 49 percent.

Nest Eggs: Unfortunately, individual MLPs aren't suitable for retirement accounts. Uncle Sam thinks it's too much of a good thing to hold one tax-deferred product (an MLP) inside a second tax-deferred product (an IRA). If you do so, the Internal Revenue Service will have its hand out. (That said, there is a way around this problem—more in a moment.)

Tax Returns: With most income distributions, you receive a Form 1099 to file with your taxes. Simple. With an MLP, you get a Schedule K-1, which is more complicated. And if you own an MLP with operations in a dozen states, you may need to file a return with each—and owe an extra $1,000 or more to your tax preparer, says Jeffrey

For more ideas on preparing for a healthy retirement, go to SmartMoney.com.

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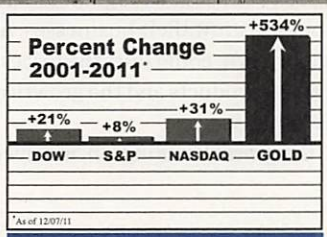

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$6 bil. Market capitalization of MLP asset class in 1995

Phillips, chief investment officer at Troy, Mich.–based Rehmann Financial, which has more than $2 billion under management.

History: In short, there's not much of it. When modeling a portfolio, it's nice to have a lot of data in order to see how investments perform at different points in time. For instance, we have good data on stocks and bonds starting in the 1920s. But MLPs, for the most part, grew out of the 1986 Tax Reform Act—and didn't really start proliferating until about a dozen years ago. As such, there's not a lot of historical data to hang your hat on.

Capital: Or the lack thereof. MLPs have to distribute most of their income to investors. That means there's little cash left over to fund growth. As such, MLPs typically turn to debt and equity markets to raise capital. Of course, access to capital all but shut down in 2008 and 2009. If we run into another credit crisis, notes Mark Willoughby, principal at Boston-based Modera Wealth Management, some MLPs could have a tough time finding money to grow their businesses. And that, in turn, could hurt the prices of these products and the growth of distributions.

Making an informed choice among these firms requires diving into all manner of MLP minutiae. Sound intimidating? There are three dozen or so funds that invest in MLPs.

Congress: Washington, meanwhile, has a deficit problem on its hands. One idea to raise revenue that has surfaced on occasion: Change the tax code to end preferential treatment of "pass-through" entities, including MLPs. Could it happen? Most observers think the chances are slim, but Canada has clamped down on similar structures.

If you wish to jump into the MLP pool, start small. Charles Farrell, CEO of Northstar Investment Advisors in Denver, cautions that too large an MLP investment can overweight a nest egg with energy and natural-resource holdings. Northstar's default portfolio (one-half stocks, one-half bonds) allocates 10 percent of equities to MLPs—or 5 percent of the total pie.

You can, obviously, buy individual MLPs. Jason Stevens, equities analyst at Morningstar, suggests looking at Energy Transfer Partners and its general partner, Energy Transfer

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Equity (both of which should benefit from the latter's recent merger with Southern Union, a pipeline operator). Other prospects: Magellan Midstream Partners (annual tariff increases help boost revenues) and Enterprise Products Partners, one of the industry's biggest players, with more than 50,000 miles of pipeline.

But making an informed choice among these firms requires diving into all manner of MLP minutiae (there are "upstream," "midstream" and "downstream" plays) and being conversant in industry yardsticks. (Can you say "distribution coverage ratio"?) If that's intimidating, look at the three dozen or so funds that invest in MLPs, suggests Phillips, the CIO at Rehmann. He points to an exchange-traded fund, Alerian MLP, which holds 25 partnerships that track the industry, as a good candidate. The fund currently yields about 6.2 percent and had a total return of 10 percent for 2011, versus 17 percent for its industry benchmark.

$280 bil. Market capitalization in 2011

Beyond simplifying (somewhat) your decision-making, a fund can simplify your paperwork. That's because a fund, at tax time, generates a 1099 and not a K-1. What's more, an MLP fund, given its structure and how it pays out distributions, *can* be held in an IRA. One potential hitch: A fund's fees could reduce the return you might otherwise get with individual MLPs.

Your best bet: Before investing a dime, check out the free "Wells Fargo MLP Primer: Everything You Wanted to Know About MLPs But Were Afraid to Ask," at naptp.org. (Click on PTP 101, then Presentations and Primers.) And remember: If you think you can't get burned with MLPs—or with most income-producing investments—you have no business owning them.

WHERE THE MONEY GOES

The industry groups represented in the approximately 95 master limited partnerships in the U.S. include the following:

78%	Energy and natural resources
11%	Investment and financial
7%	Real estate and mortgage securities
4%	Other businesses

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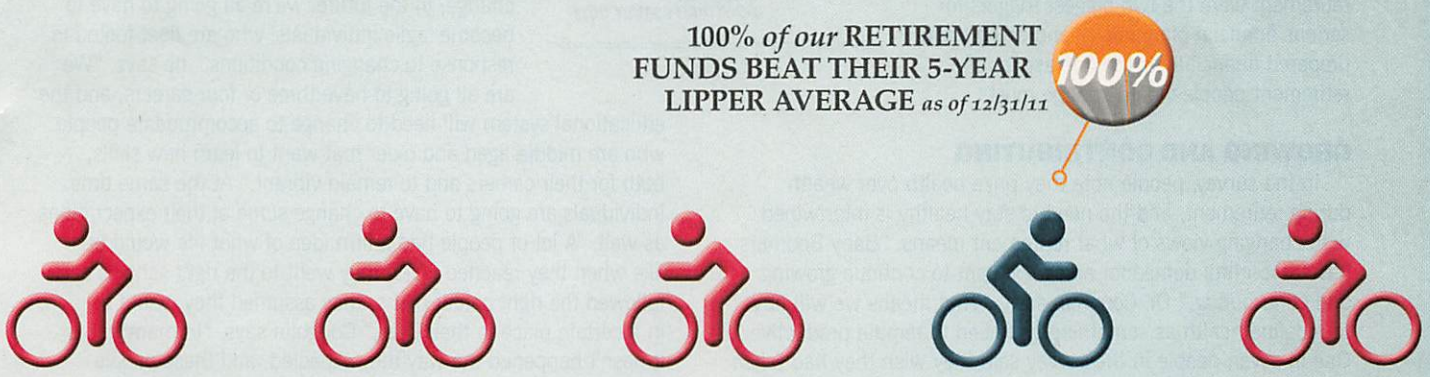

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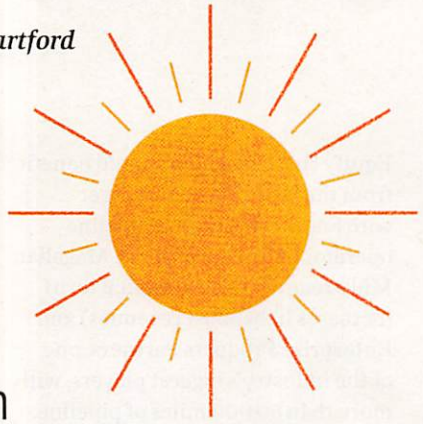

While attitudes are positive, challenges remain

Retirement may be even better than you expect. The 2011 Age of Opportunity Study from The Hartford and MIT AgeLab found that 64 percent of people who were less than a decade away from retirement expected to feel happier in retirement. Better yet, 77 percent of those who were already retired said they were happier than when they were working. The key word that pre-retirees used was "hopeful," while actual retirees selected the term "peaceful" to describe how they felt. To make sure they maintain their positive outlook, though, retirees need to prepare themselves for common challenges associated with older age, many of which go beyond the traditional risks of inflation, investment and interest rate fluctuation. Eight things to consider:

LIVING LONGER

With more people living to age 90 and beyond, people need new strategies to stretch retirement savings over a longer period of time. Certainly, annuities and mechanisms to provide guaranteed income may become more important to longer-living individuals.* At the same time, Dr. Joseph F. Coughlin, director of the MIT AgeLab, says the key is "we need to retire the word 'retirement' and focus on longevity planning and management." According to the study, a milestone birthday or being 10 years from retirement were the two biggest triggers for serious financial planning — and being better prepared financially is the one aspect of retirement people would change most.

> People note they prize health over wealth during retirement.
>
> — THE HARTFORD-MIT AGELAB AGE OF OPPORTUNITY STUDY, 2011

GROWING AND CONTRIBUTING

In the survey, people note they prize health over wealth during retirement, and the need to stay healthy is intertwined with changing views of what retirement means. "Baby Boomers have a youthful demeanor and they want to continue growing and contributing," Dr. Coughlin says. "That means we will have to redefine health as something you need to remain productive." One in seven people in the survey said they wish they had taken better care of themselves physically before retirement. "A lot of people wake up at age 65 and realize they need to be in better shape, and they want to reverse decades of inactivity," Coughlin says. One oddity, though, is that healthy couples spend more on healthcare costs in retirement than unhealthy couples — in part, simply because they live longer and need more care for more years. "Most people have no idea how much their healthcare will cost, especially when healthcare inflation kicks in," says Dr. Robert Pokorski, chief medical strategist for The Hartford's Individual Life Insurance Unit.

PREPARING FOR CONSTANT CHANGE

Dr. Coughlin says Baby Boomers have far greater expectations for their quality of life than previous generations, and these expectations will force the country's "social contract" to be rewritten. "In the 1990s, we talked about agile organizations that were able to respond quickly to change; in the future, we're all going to have to become 'agile individuals' who are fleet-footed in response to changing conditions," he says. "We are all going to have three or four careers, and the educational system will need to change to accommodate people who are middle-aged and older that want to learn new skills, both for their careers and to remain vibrant." At the same time, individuals are going to have to change some of their expectations as well. "A lot of people had a firm idea of what life would be like when they reached 50: if they went to the right schools and followed the right career paths, they assumed they would be in a certain place in their lives," Coughlin says. "In many cases it hasn't happened the way they expected, and these people will have to overcome any disappointments and readjust their thinking, hopefully in ways that will create greater contentment and satisfaction as they age."

INVESTING IN FRIENDS

There are some subtle differences between what people

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The views expressed by Dr. Joseph F. Coughlin are not necessarily those of The Hartford and should not be construed as investment advice. They are subject to change.

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think is important in retirement and what retirees actually say matters most. In the Age of Opportunity Study, pre-retirees were far more likely to expect their retirement time to be spent on traveling and new interests. People who were actually retired, though, said they were more likely to find connecting with family and friends to be the most attractive element of retirement. Ironically, Dr. Coughlin notes that one often-overlooked element of preparing for retirement is the need to "invest in friends," not just to have people who will help you in a pinch, but to reinforce the social network that is critical to our emotional well-being.

CONSIDERING POSSIBILITIES

Dr. Pokorski says many couples over age 65 expect to pass away relatively close to one another. "We've all heard the stories that women outlive their husbands by only two or three years," he says. "But hidden within that is a large number of women who live a decade or more after their husbands die." The danger is that retirement nest eggs get depleted by, say, the illness of the partner who died. Concerns like this may require people to reconsider their life insurance needs in retirement.

NEEDING LONG-TERM CARE

This is something many retirees don't consider, but Dr. Pokorski points out that the U.S. Department of Health and Human Services reported in 2010 that three in five men and four in five women require long-term care later in life, mainly for Alzheimer's disease, stroke, arthritis, serious accidents and degenerative neurologic diseases. In The Hartford survey, most retirees said they expect their spouse to care for them if they become chronically ill.

THE GLASS HALF FULL
Positive Attitudes About Retirement
PRE-RETIREES:
I will be happier after I retire
64%
RETIREES:
I am happier now that I am retired
77%
SOURCE: THE HARTFORD-MIT AGELAB AGE OF OPPORTUNITY STUDY, 2011

Children, especially daughters, were also expected to take care of their parents, though the affluent believed they would be less reliant on offspring for caregiving responsibilities than those that were less wealthy.

MAXIMIZING MOBILITY

Other research by The Hartford and MIT AgeLab — the Home for a Lifetime Study in 2011 — found that 50 percent of Baby Boomers want to stay in their current homes as they age, but they have put no plans in place to do so. Dr. Coughlin notes that as people live longer and want to maintain independence, their retirement planning will have to extend beyond finances and health to things like housing and transportation. For example, when people remodel their homes, they should change doors, walkways and other potential barriers in case there comes a time when they are less mobile. Similarly, people should consider how to get along if poor night vision or other effects of aging diminish their ability to drive.

PAVING THE WAY

One of the most exciting — and scary aspects — of retirement is that it is so different from previous generations. "Your grandparents' version of retirement isn't a paradigm that can be used by too many people today," Coughlin says. For example, women are more educated than previous generations, and taking a far greater role in financial planning. Age-old stereotypes of retirement — like couples spending limitless time strolling on the beach — no longer apply as people spend their time working longer. As Coughlin puts it, "People are rethinking what aging means, and so they are going to have to rethink what retirement means. They want 80 to 100 years of quality living, not 30 years of waiting for someone to visit." This means that getting the most out of retirement requires more open-mindedness to possibilities — which, fortunately, is something Baby Boomers have in abundance.

For more information, visit thehartford.com/retirementstudy.

THE HARTFORD

"Without bonds, small firms can't come to the government-work party."

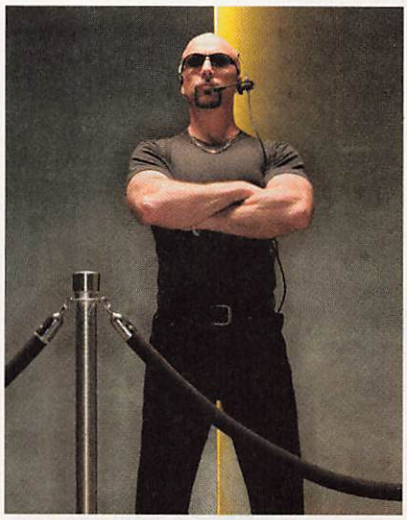
DYAN MACHAN, a senior writer at SmartMoney, can be reached at dmachan@smartmoney.com.

"CONSTANTLY STUCK between a rock and a hard place," is how Dominic Dunlap describes his business, DCG Roofing Solutions. Finding work isn't the problem: There are all kinds of government contracts to be grabbed near his Des Plaines, Ill., headquarters. The problem is getting a bond to qualify as a bidder for the contracts. If you can't get a so-called surety bond—the insurance that covers the government if something goes wrong—you aren't invited to the party.

There's a lot of jawboning about giving more government work to small businesses, the firms most vulnerable to the slowdown. But a government project worth more than $150,000 almost always requires a bond. "Bonding is always an issue for small business," says Joe Flynn, program director for Tennessee's Procurement Technical Assistance Center, one of the country's 300 centers established to help local businesses qualify for government work.

The federal government asks its agencies to set aside 23 percent of their contract work for small businesses. But for many firms, it's a helping hand they can't reach. "I hear this over and over from every small contractor," says Mark Yarbrough, a city council member in Perris, Calif., who has a small automotive business. Bond issuers, meanwhile, "are looking to draw blood, looking to disqualify you," adds Dunlap.

Surety bonds are issued by specialty businesses that do pretty much nothing else. But before such lenders give a small business a bond, they'll usually insist that the business show that it can also qualify for loans or a line of credit from a traditional bank. Small firms—especially start-ups—have struggled to get that capital since the crash, explains Lenore Marema of the Surety & Fidelity Association, a trade group. Those companies either wind up getting nothing or paying much more for what they get.



Obtaining a bond costs 2 to 3 percent of a project's value if you're a well-established Monolith Inc. But young businesses like Dunlap's, without long credit histories or huge assets, can't dream of getting that rate. So they have to go to what amounts to the subprime lenders of the surety world, getting a so-called nonstandard bond that costs anywhere from 4 to 10 percent of a job. For the kind of $400,000 roof job that Dunlap typically does, that's the difference between an up-front payment of $8,000 and as much as $40,000.

$98 bil.
Federal contracts awarded to small firms in 2010

It gets worse. A small-business owner like Dunlap could once put up his house as collateral, but since the housing market crashed, the lower-tier bond companies are more likely to demand cash in addition to the up-front bond payment. In 2007, when Dunlap was just starting out, the surety lenders typically wanted 10 percent of a job in collateral. In 2008, that rose to 30 to 50 percent. (It didn't help matters that while starting his business, Dunlap took on extra debt and missed a mortgage payment, dinging his credit score.) So for one $80,000 construction job, Dunlap says, he was asked to put aside $40,000—money he couldn't touch until months after the work was completed. Terms like those put many jobs out of reach. "Stimulus money? Let me tell you, the little guy ain't getting it," says Dunlap.

There are some tiny ripples of help on the way, as various state and local

For more insights about start-ups, visit smartmoney.com/small-business.

PHOTOGRAPH BY DARRYL ESTRINE/GETTY IMAGES; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

governments try to make the bond process less onerous. And some bonding companies have decided that they're willing to eliminate some of the hurdles for entrepreneurs. Dunlap, for example, found his way to Ox Bonding, owned by Cinium Financial, of Rock Hill, N.Y. Ox told Dunlap it didn't care about his credit score, wouldn't ask for heavy collateral and was willing to write bonds based on his business record—the jobs he had completed and whether his clients were happy. (They were.) "We have to get back to judging people by character not some mathematical formula," says Robert Berman, Cinium's CEO. Berman's motivation, he says, comes from the fact that despite a spotless work history, his dad's construction firm couldn't get bonded back in the 1970s.

Berman has a heart, but he also gets paid for taking the risks. His company receives and controls the government payments, taking its own cut before paying the borrower; Ox sends checks to suppliers and essentially monitors the business. Dunlap doesn't mind the extra hand-holding because, he says, "we're staying afloat."

There are still a lot of hoops to jump through, but looser rules can bring in more competition—and, in turn, governments can often get work done more cheaply. Stacy and Devin Bair, of Bairco, a Lovell, Wyo., construction firm, wanted to bid on a $250,000 to $500,000 contract to build a creek barrier, but they couldn't get a bond. Ultimately, their savior was a middleman; an agent fought for them in negotiations with surety companies, and Bairco got the bond, Stacy says, "by the hair of my chinny chin chin." She says the firm's creative solution for building the barrier—without the use of helicopters—saved the government a bundle. As for her business, Stacy adds, "If we didn't get that project, we wouldn't be here today."

OUT OF BONDAGE

Some efforts are afoot to help small companies get surety bonds more easily:

▶ **Making Jobs Smaller.** State and local governments are breaking jobs up, to enable companies to qualify with smaller, easier-to-get bonds.

▶ **Calling All Middlemen.** Certain specialized agents can match up small firms with bond issuers.

▶ **Bond-Free Jobs.** The state of Virginia recently raised the bond threshold for state jobs to $500,000, from $100,000, and Pennsylvania is also working on reducing bonding requirements.

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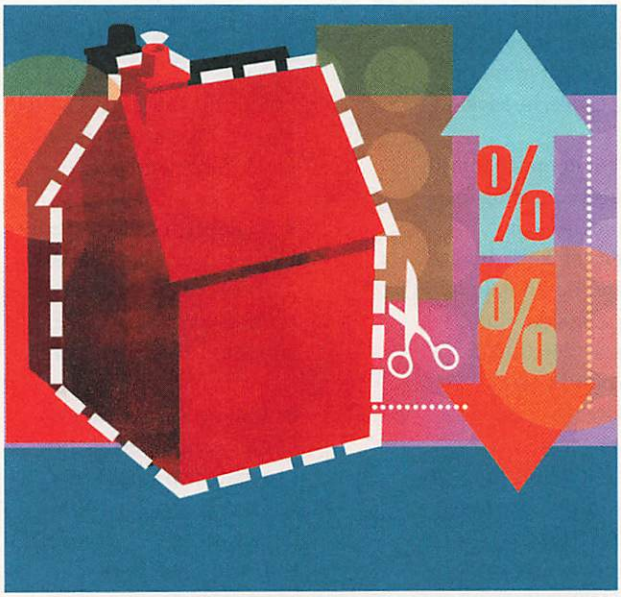


Q I recently sold a rental property for less than half of what I paid for it. Can I write off the loss?

—Lillie Lewis, Memphis

The short answer is yes—but with a catch. The Internal Revenue Service lets you write off the difference between the original value of an asset (its "cost basis") and the selling price as a capital loss. But that cost basis isn't simply what you originally paid for the property; it also includes depreciation for each year that you owned it, whether you claimed it on your return or not, says Ted Sarenski, president of Blue Ocean Strategic Capital in Syracuse, N.Y. To figure the depreciation, he says, divide the original purchase price by 27.5 (the number of allowable years of depreciation for residential real estate), and multiply that by the number of years you owned the property.

Got a question? Submit it at smartmoney.com/ask and reporter Anna Prior will try to answer it. A full archive of past questions and answers can be found there as well.

My wife and I are retired and in our mid-60s, and I want to consolidate all of our investments—my 401(k) and two IRAs—under one roof. Are we putting ourselves at risk if everything is at one firm?

—Chuck Rosa, Shelby Township, Mich.

We're all still smarting from the collapse of major financial firms such as Bear Stearns, but experts say for most investors there's little risk in consolidating accounts at one major brokerage. The Securities Investor Protection Corp., for one, covers investors for up to $500,000 for securities, including a maximum of $250,000 for cash. Plus, assets at brokerage firms or mutual fund companies are held in a custodial account and are not assets of the company, says Frank Boucher, a financial planner in Reston, Va. Translation: If the company goes belly-up, your assets are protected from creditors and regulators. Still, that doesn't mean you're safe from bad investments, so experts say it's crucial to diversify your holdings regardless of how many brokerages are involved.

My husband is a foreign national. What taxes will he pay if he inherits my assets—a whole life insurance policy and a 403(b) account?

—Rita Kushner, New York City

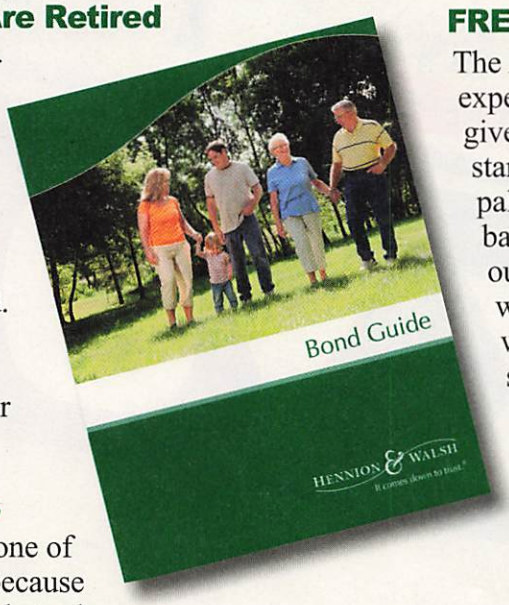
It depends largely on where he hangs his hat. If Uncle Sam considers your husband a resident for tax purposes (check IRS Publication 519 for guidelines), federal taxes apply as if he were a citizen, says Henry Alden, an international tax specialist at Everest International Group in Annapolis, Md. (States have their own laws.) If he's not a resident, he could avoid a tax hit if there's a favorable income-tax treaty with his country of residence, says Alden. The good news? The death benefit on your insurance policy will likely be tax-exempt—regardless of where your husband lives.

ILLUSTRATION BY SARAH JONES/CORBIS

Protect and Defend Your Capital

If You're About to Retire or Are Retired

If you don't have bonds in your portfolio, specifically tax-free municipal bonds, you could be setting yourself up for disappointment, frustration and a more uncertain retirement. Remember how you felt in 2008 and 2009 when the stock and real estate markets crashed. Municipal bond investors weathered the financial storm much better than many equity-only investors. Be better prepared this time.



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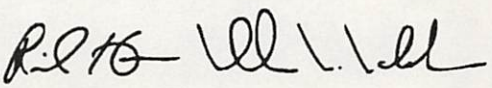
Sincerely,



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SPECIAL **RETIREMENT** REPORT

FIX YOUR

401(k)

BY IAN SALISBURY

AT TOO MANY COMPANIES, THE 401(k) PLAN IS STILL AN AFTERTHOUGHT—AND EVEN AN EXPENSIVE PITFALL FOR INVESTORS. CAN A SAVVY EMPLOYEE PATCH THE HOLES AND IMPROVE THE ODDS OF A SECURE RETIREMENT?

EVERY DAY, MILLIONS OF Americans give their investments the serious attention they deserve, riffling through the business pages, tracking the markets and grappling with tough questions. Do I need more exposure to stocks—or less? How worried should I be about the euro? Am I going to need to save more to retire on time? But there's a major question often hiding in plain sight, one so fundamental to people's financial health many don't even think to ask it: Is my 401(k) plan any good?

Certainly, few of us need to ask whether the plans matter: We've resigned ourselves to our dependency when it comes to retirement savings. Americans now hold $4.3 trillion in 401(k)s and similar defined-contribution plans, nearly three times as much as the $1.6 trillion parked in annuities. The plans weren't originally designed to be the nation's primary retirement lifeline—they started as a minor tax perk for senior executives—but they've grown inexorably, as ever more big companies have used them as a cheaper alternative to traditional pensions. Only about a third of the corporate workforce can look forward to a monthly pension check today, down from 80 percent three decades ago; over the same period, assets in 401(k)-like plans have grown 16-fold.

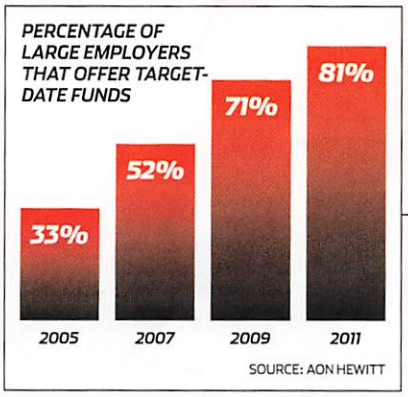
And yet, as many economists and money pros know and as more employees are beginning to realize, the plans are riddled with problems capable of tripping up even the most diligent investors. The laundry list of pitfalls includes high (and often hidden) expenses that eat up enormous chunks of plan members' gains, as well as company-provided advice that critics say ranges from vague to nonexistent. Many employers treat their plans as an afterthought; the financial-services industry, meanwhile, has little incentive to improve them because it collects between $30 billion and $60 billion a year in fees for providing little more than quarterly statements and giveaway ballpoint pens. So it often takes Norma Rae–like activism to get a company to improve its plan lineup—which means that, for many Americans, picking the components of their 401(k) may be the biggest financial decision they never get to make. "I personally think the 401(k) should be abolished," says Matt Goff, a Houston financial adviser whose practice serves small-business owners needing help with their company retirement plans.

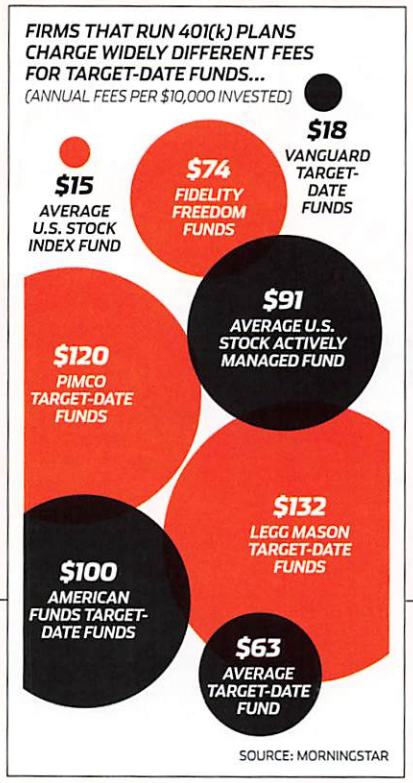
To be sure, some conscientious companies are working to make their plans better; federal regulators are getting involved too, with new rules that may make it easier for investors to see what they're actually paying for their plans. But for most investors, advisers say, it doesn't make sense to wait for the cavalry to come. Here, some of the best advice for cutting costs, finding better funds or even going outside an employer's plan to launch a 401(k) repair project.

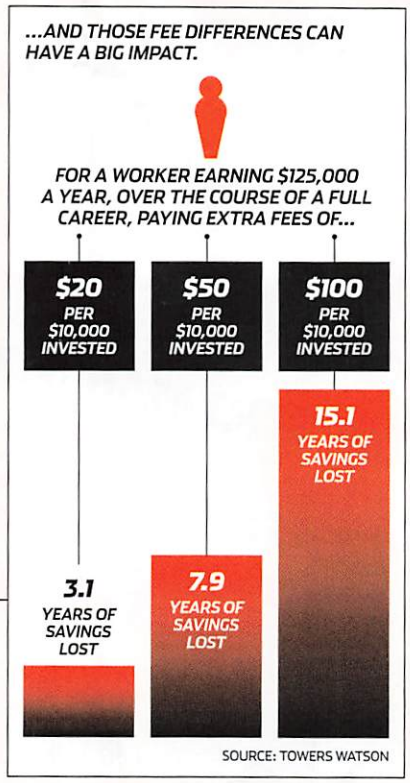
Photo-illustrations by Stephen Webster for SmartMoney

ARE THEY WORTH THE PRICE?

Target-date funds are now the anchor of many investors' 401(k) plans, but critics have faulted some funds for high expenses and so-so performance.



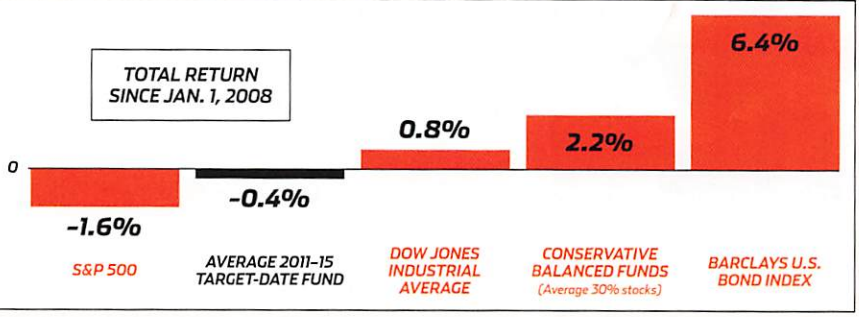



...AND THOSE FEE DIFFERENCES CAN HAVE A BIG IMPACT.
FOR A WORKER EARNING $125,000 A YEAR, OVER THE COURSE OF A FULL CAREER, PAYING EXTRA FEES OF...
$20 PER $10,000 INVESTED
$50 PER $10,000 INVESTED
$100 PER $10,000 INVESTED
3.1 YEARS OF SAVINGS LOST
7.9 YEARS OF SAVINGS LOST
15.1 YEARS OF SAVINGS LOST
SOURCE: TOWERS WATSON

CAN THEY KEEP UP?

Some funds keep a heavy balance in stocks, even as their retirement "target" approaches—which means investors can suffer bigger-than-expected losses in choppy markets. Here's how near-retirement funds have performed against some key benchmarks.

SOURCE: MORNINGSTAR



COMPARING PLANS ON COST

Soon, employers will be required to make more detailed disclosures of their plans' costs. But for more data, experts say, investors will still have to dig into companies' regulatory filings.

CHEAP

IBM
(PLAN RUN BY FIDELITY)

The sheer size of the plan, which has more than 200,000 participants, helps keep costs down, since bigger 401(k) programs usually get heftier discounts on fund expenses. But the plan also emphasizes cheaper index funds, including index options for real estate investing and inflation-protected bonds.

Data as of latest federal filings.

AVERAGE

ABERCROMBIE & FITCH
(PLAN RUN BY FIDELITY)

Members of the fashion retailer's plan have access to some index options, but most of the choices are more costly, actively managed funds, including Fidelity's target-date funds. (Fidelity says the active management of those funds gives investors a long-term performance edge.)

EXPENSIVE

TAKE-TWO INTERACTIVE SOFTWARE
(PLAN RUN BY THE PRINCIPAL GROUP)

Most funds in the video-game maker's plan are more expensive than average. To use the main stock index fund, employees pay $42 per $10,000 invested, more than twice what an all-but-identical fund costs outside the plan. Principal says the costs are typical for a plan of this size.

SOURCES: BRIGHTSCOPE; FEDERAL FILINGS

THE NEW "TARGET": CUTTING COSTS

AMERICANS NOW HOLD $343 billion in target-date funds, up threefold in six years, and they're buying them mostly through their retirement plans. These funds are the cafeteria lunch of mutual funds: They include all the basic food groups, so investors don't have to order à la carte. The funds invest in a mix of stocks, bonds and other investments that gets more conservative as an investor's retirement, or target date, approaches, rebalancing automatically for investors who prefer not to or don't know how to do it themselves. Congress passed a law in 2006 making it easier for employers to use target-date funds as a default 401(k) option, and 81 percent of large employers now offer them.

But for some cost-conscious investors, the expenses built into target-date funds are a growing peeve. Most such products are "funds of funds" that spread assets among multiple other investment vehicles. As a result, target-date-fund expenses span an unusually wide range. Vanguard's target-date products, which rely heavily on index funds, have average expenses of $18 a year per $10,000 invested; at the opposite extreme, Oppenheimer uses actively managed funds and charges $168 per $10,000. And investors at smaller companies are more likely to face fees at the higher end of the range. The differences can add up. According to human resources consultant Towers Watson, an increase of just $50 per $10,000 in target-date-fund fees could cost a high earner the equivalent of eight years' worth of retirement savings over the length of his career.

To be sure, some investors say it's worth paying more for the convenience of the all-in-one funds; what's more, the funds sometimes have access to assets like gold or foreign stocks that employees can't get elsewhere in the plan. Still, some do-it-yourselfers are opting to cook from scratch rather than accept the cafeteria tray. Atlanta adviser Jeffrey Baumert, who helps small-business owners design plans, says he'll sometimes encourage folks whose plans include Fidelity's Freedom funds to try an alternative. Freedom funds' expenses average $74 per $10,000, and Baumert says his clients can do better—they can get exposure to large-cap stocks, for example, through the inexpensive Fidelity Spartan 500 Index fund. "Do you really think that all their fund managers in every category are going to be the best?" he asks. (Fidelity says its active management is designed to deliver better returns in the long run.)

Some advisers advocate an even simpler rule of thumb: When possible, use only index funds. That's because the typical 401(k) fee structure makes the substantial expense gap between indexes and active funds even wider. "Packagers"—companies like Fidelity, Vanguard or other middlemen—collect a substantial share of their 401(k) plan revenues from active funds. Active large-cap stock funds, for example, route an average of $21 per $10,000 invested to cover back-office expenses like accounting and record-keeping, according to human resources consultancy Aon Hewitt (a firm which itself sometimes acts as a packager). The average large-cap index fund, in contrast, routes just $6, and at least half such funds don't charge those fees at all. Ultimately, investors in actively managed funds are subsidizing their coworkers, says Dave Gray, head of retirement plan product development at Charles Schwab; using index funds means getting that subsidy, instead of paying it.

TARGET-DATE FUNDS: WHAT TO ASK

HOW DID YOU DO IN THE CRASH?

Planners say that anyone considering a target-date fund should see how that fund fared during the 2008–09 financial crisis. Among target-date funds geared for workers who planned to retire in 2010, the average fund lost 22 percent in 2008, but some lost as much as 40 percent.

AM I THE KIND OF INVESTOR YOU TARGET?

Target-date funds have a lot of assumptions about investor behavior baked into their structure. Many hold plenty of volatile assets, like stocks, even as they pass their retirement target dates, assuming investors won't need to tap the money right away and can take some risks with it. Others are already filled with bonds, assuming that investors will cash out the day they retire. Savers whose needs or plans don't match a fund's assumptions might not find the funds to be a good fit.

CAN I GET YOUR FUNDS SEPARATELY AND CHEAPER?

Some investors and advisers check a target-date's overall expense ratio, then compare that fund's individual components to similar index funds in the same 401(k) plan. In some cases, employees find they can build a comparable portfolio at a fraction of the cost.

DO YOU DIVERSIFY ME?

Some investors say it can be worth holding on to a target-date fund if it offers investments that you can't get elsewhere in your 401(k), like commodities or REITs, which can smooth returns in rocky markets.

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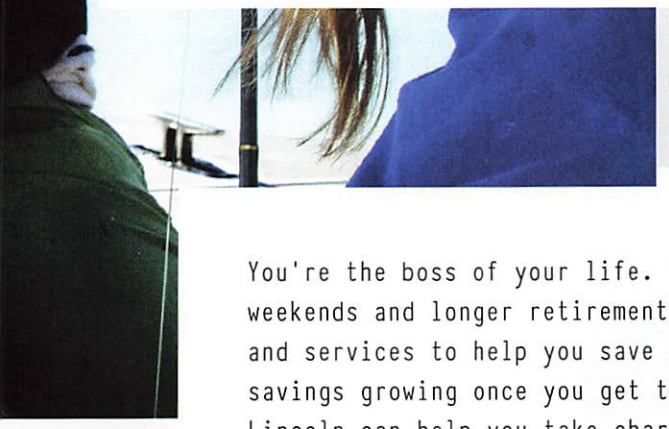

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COMPARING PLANS ON CHOICE

Some employers give their 401(k) members a wide range of investing options, but others say they try to simplify things for employees by offering only a stripped-down menu.

MORE OPTIONS

GOLDMAN SACHS (PLAN RUN BY AON HEWITT)

Leave it to the Wall Street titans to set themselves up with a full financial buffet. The investment bank's plan includes a broad range of index funds, as well as diversification options like funds devoted solely to emerging-market bonds and commodities—choices that rarely pop up in the average 401(k). Another unusual menu item: Goldman staffers can invest their 401(k) money in hedge funds.

AVERAGE OPTIONS

SIMON PROPERTY GROUP (PLAN RUN BY FIDELITY)

The shopping-mall operator's plan is built around Fidelity's active target-date funds, which are somewhat more expensive than the cheapest options in the category. (Fidelity declined to discuss the specifics of the plan.) But Simon also offers a handful of index funds and, appropriately enough, a real estate fund.

FEWER OPTIONS

BOSTON SCIENTIFIC (PLAN RUN BY VANGUARD)

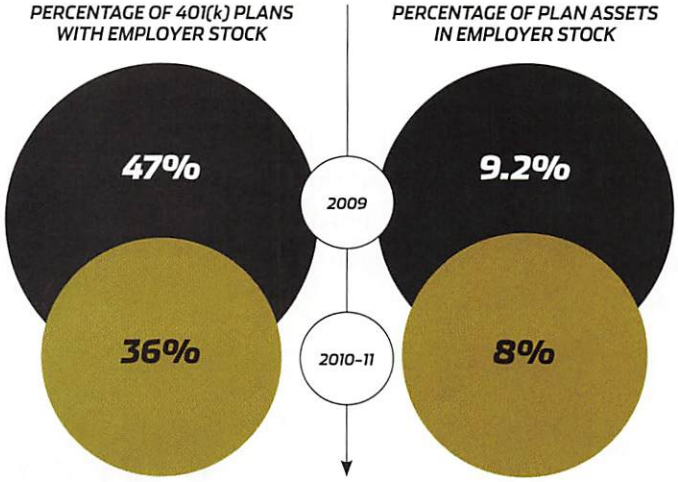
The medical-equipment maker offers only 11 funds that aren't target-date funds, slightly fewer than the industry average; there's just one bond fund, and no funds that focus specifically on real estate or inflation-protected bonds. Boston Scientific says its plan is designed for employees to build their long-term savings and is appropriately broad. Vanguard declined to comment.

Data as of latest available filings.

SOURCES: BRIGHTSCOPE; FEDERAL FILINGS

BUT SOMETIMES, LESS IS MORE

Fewer employers are putting a company-stock purchase option in their 401(k) plans—a good thing, since workers got burned in these investments after both the tech crash and the financial crisis.



SOURCES: EMPLOYEE BENEFIT RESEARCH INSTITUTE; AON HEWITT

BEYOND YOUR 401(k): WHAT TO ASK

WHAT'S MY MATCH?

Financial advisers say investors should almost always contribute enough to get their 401(k) plan's full match—most years, their investments would have to have a great run to make up for the money they would have left on the table.

CAN I CLIMB OUT THE WINDOW?

About a fifth of large companies have a "brokerage window" that offers access to a bigger range of investments—though using it means paying fees and commissions. Some advisers recommend minimizing costs by using the window only once a quarter or once a year.

WHAT IF I GO OUT ON MY OWN?

Investors without a brokerage window can find more investment options by opening an IRA or a Roth IRA. For 2012, the maximum contribution for such plans is $5,000 for those under 50 and $6,000 for those 50 and older.

WHEN CAN I LEAVE?

When workers switch jobs, they can roll their 401(k) plan balance into an IRA. Otherwise, they're stuck, with one noteworthy exception: In many plans, those who turn 59½ become eligible for an "in-service rollover," even if they stay with their company.

401(k)

BY IAN SALISBURY

AT TOO MANY COMPANIES, THE 401(k) PLAN IS STILL AN AFTERTHOUGHT—AND EVEN AN EXPENSIVE PITFALL FOR INVESTORS. CAN A SAVVY EMPLOYEE PATCH THE HOLES AND IMPROVE THE ODDS OF A SECURE RETIREMENT?

EVERY DAY, MILLIONS OF Americans give their investments the serious attention they deserve, riffling through the business pages, tracking the markets and grappling with tough questions. Do I need more exposure to stocks—or less? How worried should I be about the euro? Am I going to need to save more to retire on time? But there's a major question often hiding in plain sight, one so fundamental to people's financial health many don't even think to ask it: Is my 401(k) plan any good?

Certainly, few of us need to ask whether the plans matter: We've resigned ourselves to our dependency when it comes to retirement savings. Americans now hold $4.3 trillion in 401(k)s and similar defined-contribution plans, nearly three times as much as the $1.6 trillion parked in annuities. The plans weren't originally designed to be the nation's primary retirement lifeline—they started as a minor tax perk for senior executives—but they've grown inexorably, as ever more big companies have used them as a cheaper alternative to traditional pensions. Only about a third of the corporate workforce can look forward to a monthly pension check today, down from 80 percent three decades ago; over the same period, assets in 401(k)-like plans have grown 16-fold.

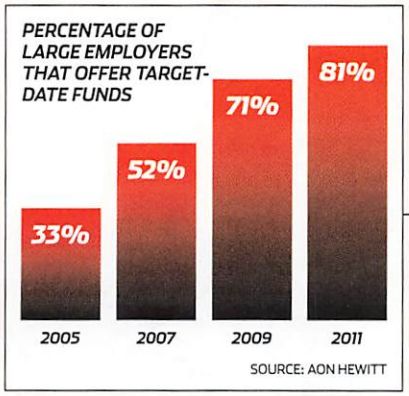
And yet, as many economists and money pros know and as more employees are beginning to realize, the plans are riddled with problems capable of tripping up even the most diligent investors. The laundry list of pitfalls includes high (and often hidden) expenses that eat up enormous chunks of plan members' gains, as well as company-provided advice that critics say ranges from vague to nonexistent. Many employers treat their plans as an afterthought; the financial-services industry, meanwhile, has little incentive to improve them because it collects between $30 billion and $60 billion a year in fees for providing little more than quarterly statements and giveaway ballpoint pens. So it often takes Norma Rae–like activism to get a company to improve its plan lineup—which means that, for many Americans, picking the components of their 401(k) may be the biggest financial decision they never get to make. "I personally think the 401(k) should be abolished," says Matt Goff, a Houston financial adviser whose practice serves small-business owners needing help with their company retirement plans.

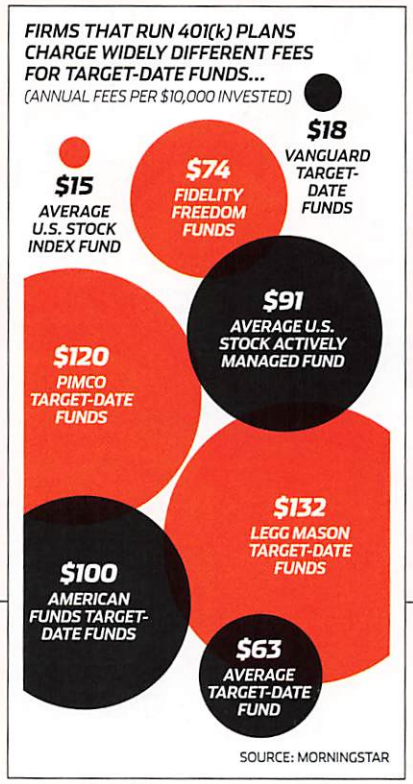
To be sure, some conscientious companies are working to make their plans better; federal regulators are getting involved too, with new rules that may make it easier for investors to see what they're actually paying for their plans. But for most investors, advisers say, it doesn't make sense to wait for the cavalry to come. Here, some of the best advice for cutting costs, finding better funds or even going outside an employer's plan to launch a 401(k) repair project.

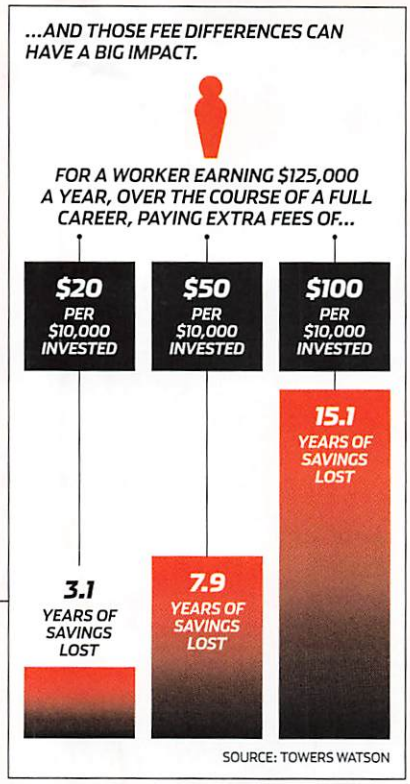
Photo-illustrations by Stephen Webster for SmartMoney

ARE THEY WORTH THE PRICE?

Target-date funds are now the anchor of many investors' 401(k) plans, but critics have faulted some funds for high expenses and so-so performance.



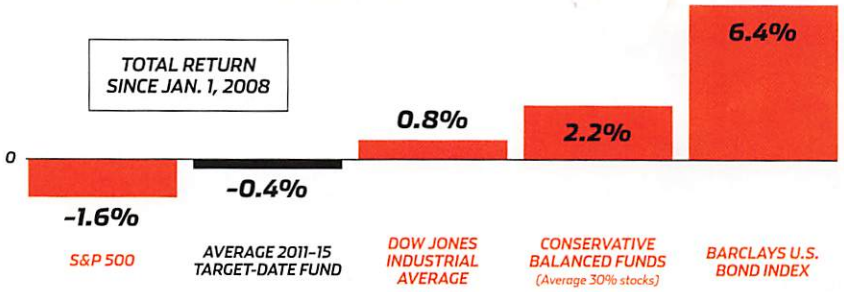



...AND THOSE FEE DIFFERENCES CAN HAVE A BIG IMPACT.
FOR A WORKER EARNING $125,000 A YEAR, OVER THE COURSE OF A FULL CAREER, PAYING EXTRA FEES OF...
$20 PER $10,000 INVESTED
$50 PER $10,000 INVESTED
$100 PER $10,000 INVESTED
3.1 YEARS OF SAVINGS LOST
7.9 YEARS OF SAVINGS LOST
15.1 YEARS OF SAVINGS LOST
SOURCE: TOWERS WATSON

CAN THEY KEEP UP?

Some funds keep a heavy balance in stocks, even as their retirement "target" approaches—which means investors can suffer bigger-than-expected losses in choppy markets. Here's how near-retirement funds have performed against some key benchmarks.

SOURCE: MORNINGSTAR



COMPARING PLANS ON COST

Soon, employers will be required to make more detailed disclosures of their plans' costs. But for more data, experts say, investors will still have to dig into companies' regulatory filings.

CHEAP

IBM
(PLAN RUN BY FIDELITY)

The sheer size of the plan, which has more than 200,000 participants, helps keep costs down, since bigger 401(k) programs usually get heftier discounts on fund expenses. But the plan also emphasizes cheaper index funds, including index options for real estate investing and inflation-protected bonds.

AVERAGE

ABERCROMBIE & FITCH
(PLAN RUN BY FIDELITY)

Members of the fashion retailer's plan have access to some index options, but most of the choices are more costly, actively managed funds, including Fidelity's target-date funds. (Fidelity says the active management of those funds gives investors a long-term performance edge.)

EXPENSIVE

TAKE-TWO INTERACTIVE SOFTWARE
(PLAN RUN BY THE PRINCIPAL GROUP)

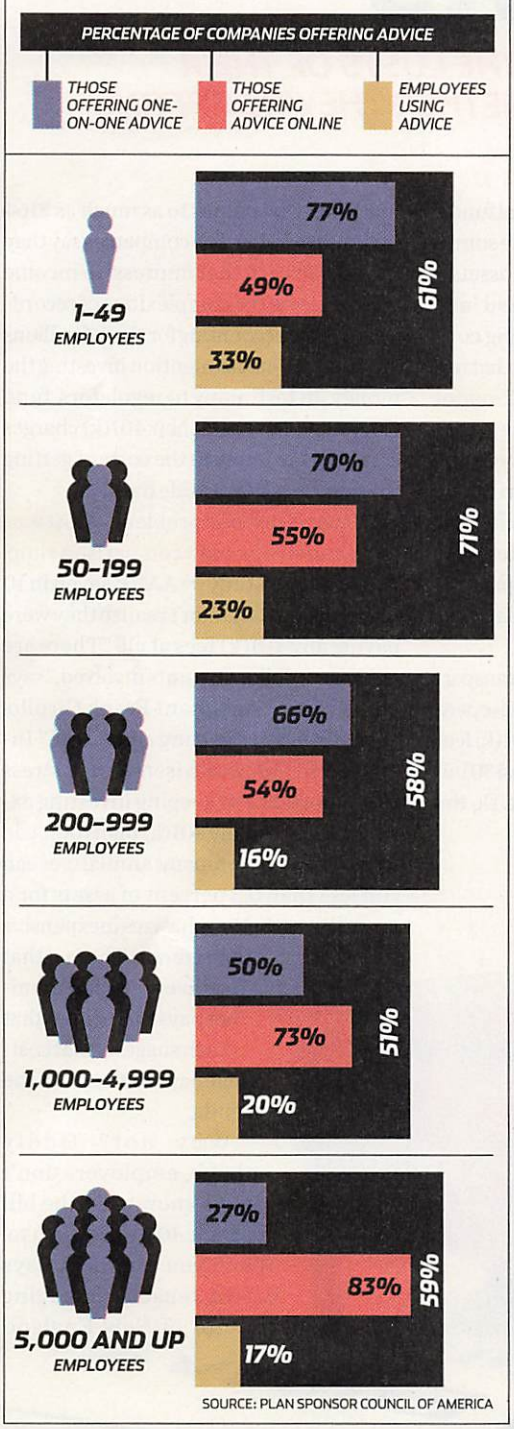
Most funds in the video-game maker's plan are more expensive than average. To use the main stock index fund, employees pay $42 per $10,000 invested, more than twice what an all-but-identical fund costs outside the plan. Principal says the costs are typical for a plan of this size.

Data as of latest federal filings.

SOURCES: BRIGHTSCOPE; FEDERAL FILINGS

AND BIG COMPANIES DON'T ALWAYS OFFER THE MOST SUPPORT

Research suggests that 401(k) investors at smaller companies are more likely to have access to one-on-one investment advice through their employer—and they're more likely to take advantage of the assistance.



SOURCE: PLAN SPONSOR COUNCIL OF AMERICA

GETTING HELP: WHAT TO ASK

SHOULD I TAKE MY EMPLOYER'S ADVICE?

Pros say advice from planners hired by the employer can offer investors a quick read on how much to save or whether to buy more stocks or bonds. But when it comes to picking specific investments, they add, getting a second opinion or reviewing independent research is often worthwhile.

WHAT'S ONLINE?

Morningstar is an invaluable resource for researching mutual funds. At not-for-profit website Bogleheads .org, anyone brave enough to (anonymously) post the details of their financial life can get advice from opinionated volunteers. Of course, with free and anonymous advice, "it's buyer beware," says securities lawyer Edward Rosenblatt.

CAN I FIND OUT HOW MY PLAN STACKS UP?

BrightScope, a financial research firm, has a website that offers ratings of 401(k) plans: The sections on "total plan cost" and "investment-menu quality" offer a sense of how a plan's fund lineup stacks up against others in its industry.

WHAT KIND OF ADVISER DO I WANT?

For those whose main financial concern is their 401(k) plan, a one-time meeting with a planner can be cost-effective; for investors with more complex needs, like an inheritance or college education to finance, bringing on someone full-time for an annual or asset-based fee might be warranted.

WHERE THE ADVICE IS... AND WHAT IT COSTS

	ADVICE FROM YOUR COMPANY	ONE-TIME, OUTSIDE ADVICE	FULL-TIME ADVICE
COST	Usually free.	$500 and up for a review of your finances (based on typical fees).	Typically 1% a year, or $5,000 a year for someone with $500,000 in investable assets.
PROS	Can't beat the price.	Clients can mesh 401(k) advice with counsel on issues like college savings and insurance.	Advisers handle some transactions for clients and offer guidance on issues like estate planning.
CONS	Only offered by about 60% of firms. Many limit counsel to relatively generic advice.	It's up to the client to follow the plan; getting follow-up advice often means paying extra.	Often more expensive than part-time help; some investors with fewer assets feel neglected.

SPECIAL **RETIREMENT** REPORT

THE BIG BUSINESS OF 401(k) PLANS

INVESTORS WILL SOON LEARN MORE ABOUT THE COSTS OF THEIR RETIREMENT PLANS. MANY MAY WONDER WHETHER THEY'RE GETTING WHAT THEY PAY FOR.

AMERICA'S conversion to the 401(k) plan has certainly created a new world for future retirees, who have been discovering just how tricky it is to prepare for retirement in their spare time. But one party hasn't been complaining: the financial-services industry.

Though most Americans know them primarily as brokers or banks, the Fidelitys, Merrill Lynches and INGs of the world also dominate the 401(k) packaging business. That gives those firms the ability to introduce millions of workers—and $4.3 trillion of their savings—to the packagers' own hand-picked rosters of mutual funds. In total, financial firms take home somewhere around 1 percent of those assets a year, and few workers understand how that money flows. (One confusing concept: "revenue sharing." More on that in a bit.) But in coming months, the shroud of mystery may be lifted a bit, as the government is expected to implement regulations for disclosing fund fees. Lori Lucas, a defined-contribution-plan specialist at consulting firm Callan Associates, says the new rules "will improve transparency and put additional pressure on plan vendors to make fees reasonable."

What investors see once that transparency arrives might be quite eye-opening. By rough estimates, 401(k) fees add up to anywhere from $30 billion to $60 billion a year. Do the math and that comes to as much as $164 million every day. The companies say they more than earn that impressive income stream, given the complexities of record-keeping and accounting for tens of millions of accounts—not to mention investing the money. In testimony to regulators, fund companies have said their 401(k) charges compare favorably to the costs of getting the same services outside the plan.

There's just one problem: Most employees don't or can't comparison shop. In one recent study by AARP, seven in 10 workers said they didn't realize they were paying any 401(k) fees at all. "There are enormous dollar amounts involved," says former plan consultant Frank Cirullo. "Employees are getting ripped off." Indeed, even though advisers always stress the importance of keeping investing expenses down, many 401(k) plans don't do so. At a midsize company, annual fees can run less than 0.3 percent of assets for a no-frill plan that emphasizes inexpensive index funds. The fact that the average plan member pays three times that much suggests that cost-efficiency isn't high on the agenda.

Why not? Oddly enough, employers don't always know what the bill for their 401(k) adds up to. When you ask them, says Glenn Jensen, managing director of New England

Retirement Consultants, "you get a deer-in-the-headlights look." Some of the problem, according to critics, comes down to that practice known as revenue sharing. In many plans, the packager charges the employer little or nothing. But the packager maintains leeway over which investment choices get included. And it makes up its costs by steering plan investors toward mutual funds—usually more expensive, actively managed ones—that route a slice of their fees back to the packager. On some funds, those revenue-sharing fees alone can cost an average of $33 a year per $10,000 invested, according to human resources consultants Aon Hewitt, enough to put a serious dent in an employee's investment performance.

Critics like Ryan Alfred, cofounder and president of financial research firm BrightScope, say this arrangement effectively discourages packagers from offering lower-cost index funds, because they can't pull in as many fees. The result: Plan members pay much higher fund-management fees, yet another factor that can eat into their returns.

Fidelity declined to discuss the relative costs of its plans, but says that in some cases, employers get to decide whether they want to use a revenue-sharing system. Bank of America Merrill Lynch and ING declined to discuss costs or revenue sharing, although—irony alert—both companies said they were in favor of transparency on fees. (Employers and workers "should fully understand costs and get real value," Merrill said in a statement.)

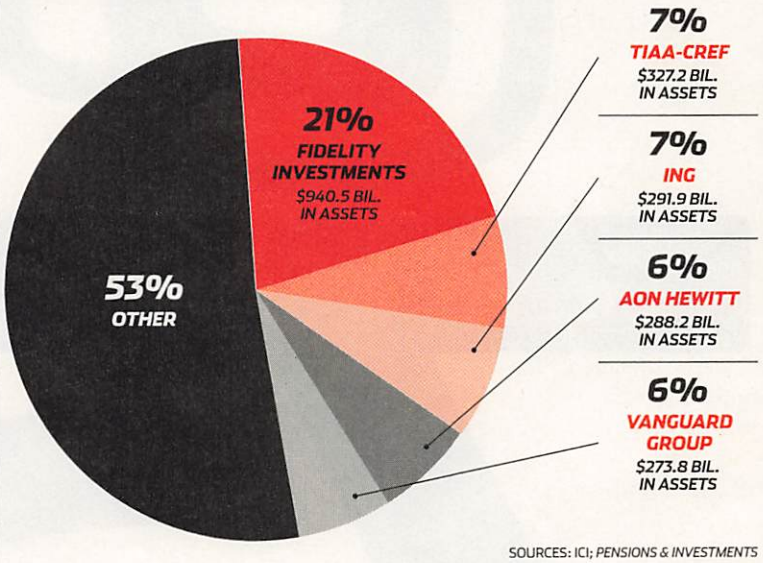
Some consumer advocates are optimistic that the new fund-disclosure rules will untangle some of this mess and bring costs down. Still, problems are likely to persist. As currently proposed, the rules require packagers to disclose revenue-sharing fees to employers, but not directly to plan members, who will have to dig through regulatory filings to get them. And employees still lack straightforward ways to pressure their employers to cut costs. Bottom line: The tussle over fees has only just begun.

WHERE THE RETIREMENT-PLAN MONEY GOES

Retirement-plan "packagers," which oversee the plans of big employers, have a huge influence on 401(k) investors' choices and costs.

TOP FIRMS DOMINATE THE MARKET

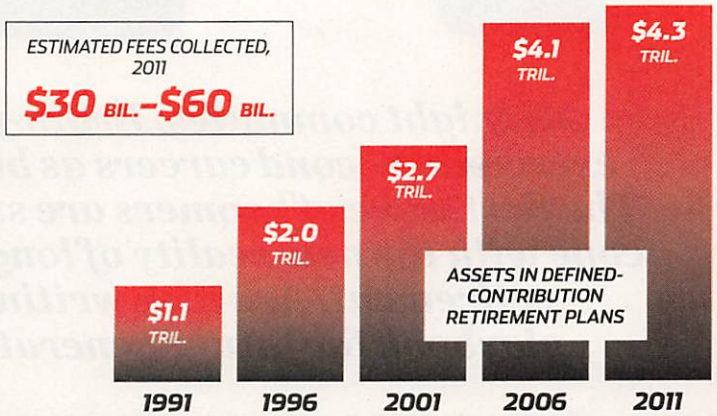
The five biggest packagers control almost half of the defined-contribution business.



SOURCES: ICI; *PENSIONS & INVESTMENTS*

...AND AS THE PLANS GROW, THE FIRMS' FEES RISE

Plan packagers collect around 1 percent of 401(k) assets, a pot that has gotten steadily bigger as more investors have poured into the plans.



SOURCES: ICI; BRIGHTSCOPE; SMARTMONEY RESEARCH

9 to 5 @ 75

Midnight commutes. Brain-fitness exercises. Second careers as bloggers. The first wave of boomers are starting to cope with the new reality of long-delayed retirement. Are they writing the playbook for future generations?

BY ANNE KADET

Photograph by Bob Stefko for SmartMoney

After having kids late in life and surviving a job loss, 67-year-old David Weiner is looking at 10 more years of work.

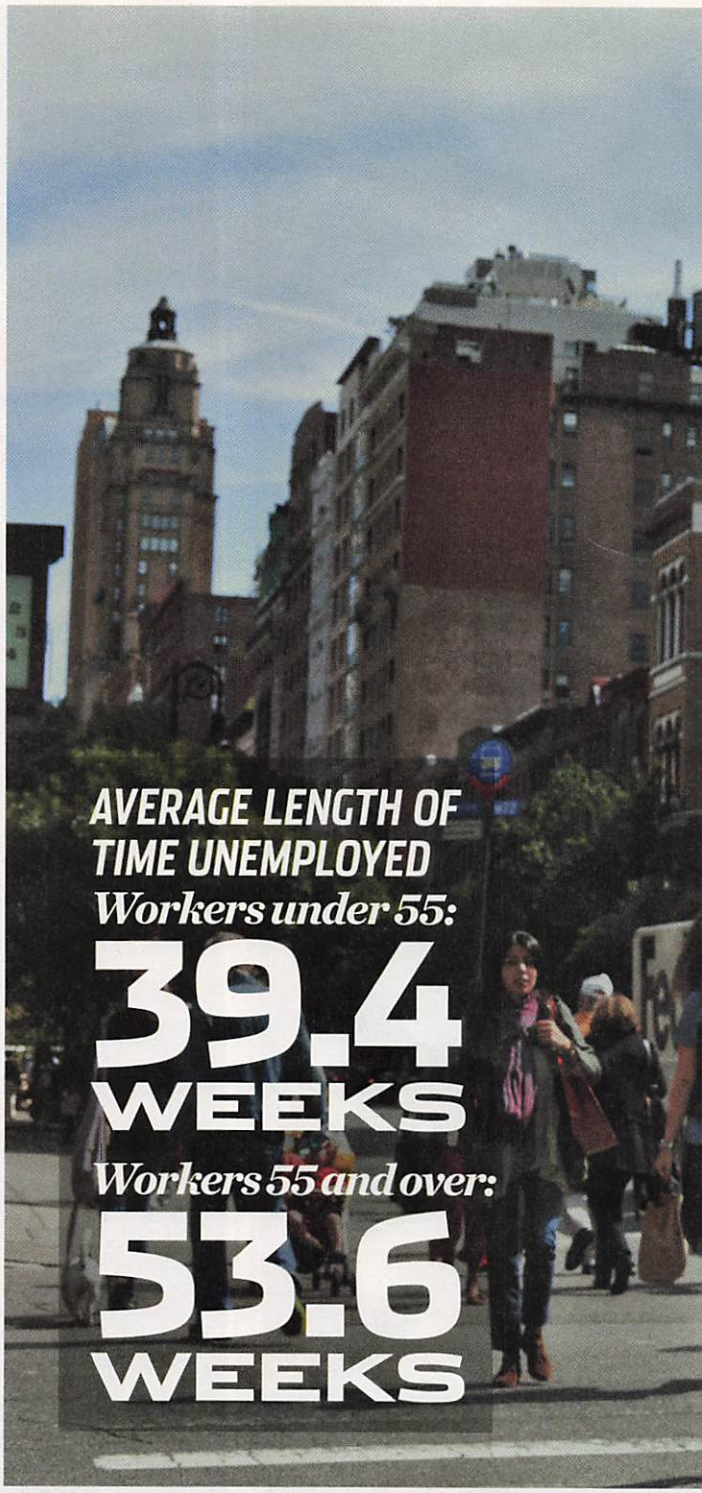
fter Ailika Thomas woke up from a snooze, her husband brought her coffee in bed. It was 7 p.m., and the 73-year-old was facing a long, moonlit drive from her rural Indiana home to Chicago; Dean wanted to make the journey as easy as possible for his wife. As she dressed, he warmed the car (a red Buick named Carmen) and stocked it with snacks—containers of sugar peas, blueberries and her favorite, raw turnips. When Ailika emerged from the back door in a pink-and-white pants combo accompanied by her two Yorkshire terriers, Dean gave her a warm goodbye kiss and made her promise to call at journey's end.

It was a touching scene, but a familiar routine: Thomas's destination was her job. Five nights a week, she drives 90 minutes each way to work the midnight shift as a research supervisor for a big company downtown.

Thomas can't afford to retire. She's not complaining. The job keeps her connected, the benefits are generous, and there's still time to volunteer at downtown theaters and enjoy camper trips with Dean. But the commute! Sometimes, even the latest Dean Koontz thriller on tape can't keep her awake. She mists her face with a water fan, gulps 5-Hour Energy shots (bought by the case at Costco) and yells in the car. When the urge to nod off proves irresistible, she pulls off the interstate and naps in a supermarket parking lot.

Some might suggest that after 56 years in the labor force (she got her first full-time job in 1956, working for Encyclopaedia Britannica) and nearly two decades at the firm, it's time for Thomas to take it easy. But employers in nearby Michigan City don't pay nearly as well, and good luck finding a new gig when you're 73. Ask how long she'll continue, and Thomas says it's not her call: "I don't know how long God's going to let me live."

Commutes like Thomas's might be rare, but working well into one's seventh decade is a scenario that has become—seemingly overnight—relatively commonplace. For millions of workers, retirement has been delayed for years; others say they may never retire. Thanks to the nation's massive asset meltdown—sagging retirement accounts, plunging property values—an enormous swath of the population has had to redefine their life path. Older folks who assumed they'd be retired by now are struggling with the need to work long after the passion (not to mention the brain and the body) has started to fade. And the result of all this turmoil is a little-noticed but profound shift in the workforce. Some academics say we may well be reverting to historical norms, returning to pre–New Deal conditions in which most Americans had to work until they, well, dropped. The number of working people over age 65 reached an all-time low in 2001, when just 13 percent held a job. Now that rate is rebounding, and fast; last summer, it hit 18 percent, a level not seen since Kennedy faced the Cuban Missile Crisis.



Of course, plenty of folks still have enough money to retire comfortably. But many boomers, facing a bipolar stock market and a pathetic return on their savings, feel deeply insecure; in one recent Associated Press survey, one in four predicted they'd never be able to retire. And between those two extremes, millions of workers in their 50s and 60s have quietly given up on the dream of an early retirement or the launch of an "encore" career as an underwater dolphin photographer. Instead, they're resigned to meeting the new demands of a work world they

Photograph by Evan Kafka for SmartMoney

Ron Cohen, 75, lost his taste for the restaurant business as the age gap widened between him and his chef clients.

thought they'd bid farewell. Facebook and LinkedIn? They were supposed to be playthings for the junior executive. Brain exercises? They were pitched as preventive medicine for senility, not a job requirement. Cosmetic surgery? Laughable—until your career depends on it.

Labor experts say this first wave of delayed retirees will face the biggest challenges. They weren't prepared for the sharp reversal in expectations, or the difficulties of working while elderly—nor were their employers. But for better or worse, this group is blazing a trail that subsequent generations of workers may wind up walking.

The decades-long retirement is actually a relatively new invention. In the early 1900s, nearly 80 percent of Americans over the age of 65 had a job. Folks expected to work for as long as they lived, says Dora Costa, an economic historian at the University of California, Los Angeles, and they'd generally stop laboring only if they became too ill or frail to keep going. The average retirement lasted three years. That began to change, of course, with the introduction of Social Security and private-sector pensions—both designed to free older workers from the need to choose between work and starvation. By the latter half of the 20th century, longer life spans meant people

STATS:

REASONS FOR DELAYING RETIREMENT
SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

36% *The poor economy*

could count on living well past retirement age, and an evolving financial-services industry was pitching products like annuities to help people fund a long retirement. The result: By 2007, right before everything went to hell, the average retirement lasted 20 years.

Now, Americans are once again working well into their winter years, but they're facing a very different challenge. Thanks to the nation's transition from manufacturing powerhouse to service economy, the demands facing senior workers today tend to be mental rather than physical. U.S. jobs, on the whole, require more brain power than they used to. And while some mental abilities hold steady with age—verbal skills and job know-how, for example—others are subject to an inevitable decline after the age of 50. This slowdown affects nearly everyone: The typical senior takes twice as long as a youngster to complete a simple number-sequencing test. "There are dramatic differences," says Bill Beckwith, a Naples, Fla., neuropsychologist.

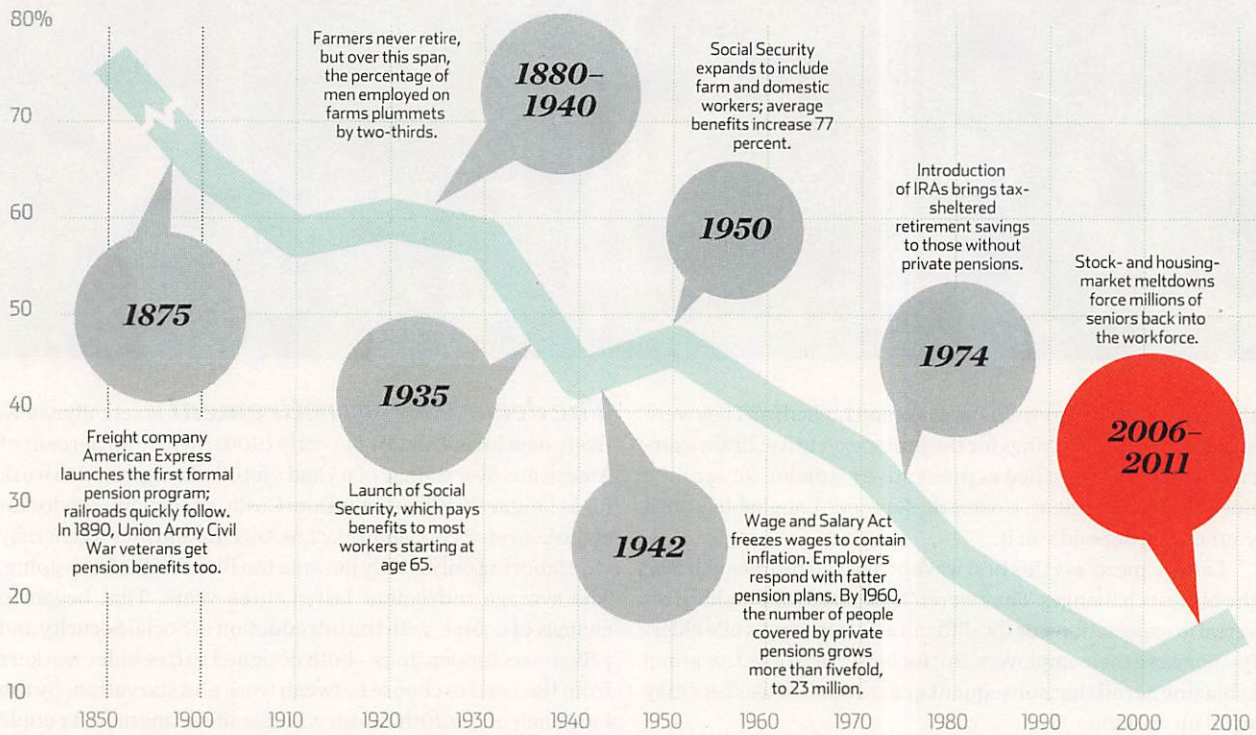
Bill Horne of Clearwater, Fla., started to notice his brain slowing down two years ago. The 62-year-old says that if he were retired and playing golf, he wouldn't mind. But as Clearwater's city manager, he oversees 1,600 employees and a $375 million budget. He was spending more and more time preparing for meetings, rereading reports and juggling notes. He found himself telling the mayor and city council, "Sorry, I'll have to get back to you on that." His doctor, Steve Scranton at Brain Fitness Centers of Florida, one of a growing number of physicians who specialize in "cognitive rehab," prescribed a daily regimen of mental drills, such as memorizing number sequences. Horne says the exercises, combined with a better diet (more salads, fewer carbs), produced a marked improvement: "I overcame the sluggishness."

Of course, not all cerebral slippage can be reversed in rehab.

SENIORS ON THE JOB: A BRIEF HISTORY

Only a minority of older Americans have jobs today, but historically that wasn't the case. It took long years of change, dating back to the Civil War, to create retirement as we know it.

Percentage of Americans over 65 who are employed


80%
70
60
50
40
30
20
10
1850
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
1875
Freight company American Express launches the first formal pension program; railroads quickly follow. In 1890, Union Army Civil War veterans get pension benefits too.
1880–1940
Farmers never retire, but over this span, the percentage of men employed on farms plummets by two-thirds.
1935
Launch of Social Security, which pays benefits to most workers starting at age 65.
1942
Wage and Salary Act freezes wages to contain inflation. Employers respond with fatter pension plans. By 1960, the number of people covered by private pensions grows more than fivefold, to 23 million.
1950
Social Security expands to include farm and domestic workers; average benefits increase 77 percent.
1974
Introduction of IRAs brings tax-sheltered retirement savings to those without private pensions.
2006–2011
Stock- and housing-market meltdowns force millions of seniors back into the workforce.

Cost of living in retirement will be higher than expected

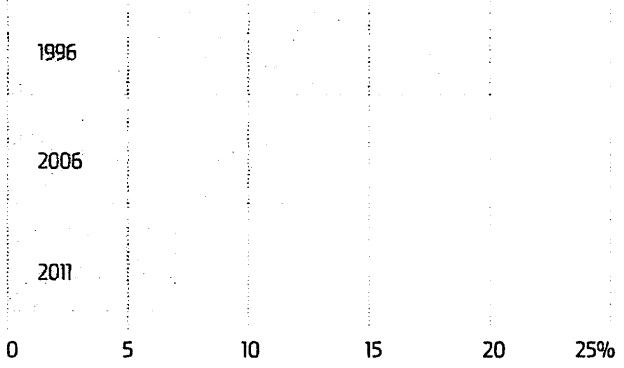
Change in employment situation

Doctors measure cognitive function on the horribly named Global Deterioration Scale, which ranges from 1 (doing just fine!) to 7 (needs to be spoon-fed). Most working folks, including seniors, could be classified as 1. Those who register in the 2 range experience frequent memory slips. By the time you hit 3, a professional job becomes hard to manage. Beckwith recalls one client, an accountant in his 80s, who was still keeping the books for a large department store. It took him all week to finish tasks that used to take a single day.

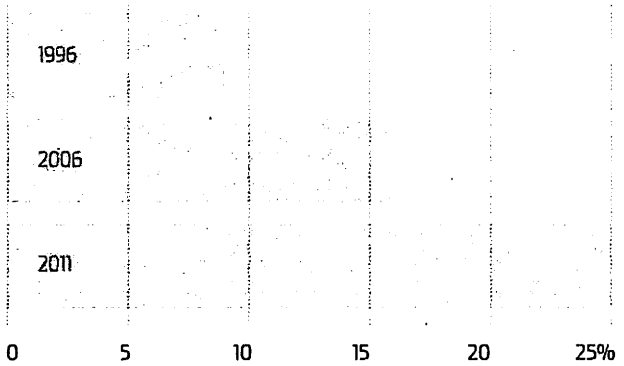
Researchers have identified typical areas of mental decline. First, the elderly learn at a slower pace. This isn't a big problem in blue-collar jobs or fields like general medicine, management and law, in which professionals rely heavily on pattern matching, accumulated knowledge and expertise. In fact, people tend to thrive in these occupations well into their 70s and 80s. It can be a serious challenge, however, for an executive leader in a fast-paced industry. Multitasking ability also hits the skids. An older author interrupted by a phone call requires extra time to resume her writing, for example—if she manages to remember what she was doing in the first place. Then there's the decline in processing speed. An older person might not absorb speech as fast as his or her young coworkers are talking, and won't understand what's being said, says Lisa Schoonerman, cofounder of VibrantBrains, a California-based brain-fitness coaching program. Businesses like Schoonerman's have been gaining traction; the brain-training sector's revenue has tripled in the past five years, to $400 million. But most seniors cope on their own, inventing little work-arounds at the office to hide their deficiencies. They take copious notes when meeting with the boss and make light of enjoying another senior moment, says Rohn Kessler, a psychologist who coaches executives at his Boca Raton, Fla., outfit Sparks of Genius. "Underneath," he adds, "they're scared to death."

Expectations about retirement have shifted too, as past and present worker surveys show.

Percentage expecting to retire before 60



Percentage expecting to work until 70 or later



SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

David Weiner's brain is working just fine, thank you very much. Still, he's dealing with his own little carnival of anxieties. From the outside, his life looks pretty good. His new job as a direct-mail and printing broker can pay $75,000 a year in commissions. He lives in a swanky Chicago burb, where his youngest daughter earns straight A's at a top private school; the other is in her junior year at a prestigious East Coast art college. And he plays the part of the optimist. Frank and outgoing, with big ears and snapping brown eyes, he smiles constantly as he chatters away in his office, quoting Kerouac, Eastern proverbs and favorite historians. It's crucial, he says, between calls with clients, to stay upbeat and focused. Because the truth is, he says, "I've got one foot over the edge."

Weiner had kids late in life. The 67-year-old says that it kept him young, but he's still paying high school tuition, while his peers collect Social Security. His retirement savings took a big hit in the stock market, his house lost a third of its value, and he burned through the remaining equity while between jobs. His younger daughter, a high school senior, has set her sights on prestigious private universities across the country, including Rice, Brown and Yale, and Weiner isn't sure how he'll pay the tab.

And the pressure isn't just financial. Weiner's best friend, Joe, died suddenly a few years ago, and that left him pondering his own mortality—and his legacy. He never was crazy about the printing business, and he'd love to start over, writing and marketing for environmental causes. In fact, his one consolation is an Eco-Tips blog he writes for his employer's website. Every week, he posts a long, advice-driven article on pet topics like water conservation. But that doesn't help pay the bills, and it hasn't attracted any new opportunities. The way things are look-

9% *Need to pay current expenses first*

6% *Need to make up for loss in the stock market*

ing, Weiner faces another 10 years in the printing biz.

Like many of his boomer peers, Weiner doesn't mind working—in fact, studies show that older workers are the happiest, and a recent EBRI poll found that 92 percent of seniors cite "wanting to stay active and involved" among their reasons for working. But the hope was that in their golden years they'd set the terms and do the work they love. What's more, seniors coming out of retirement for financial reasons often face a massive loss in pay and prestige. Last year, folks over age 62 who took a new job saw a 36 percent cut in their hourly wage, on average, compared with a 2 percent cut for workers in their 20s and 30s. So while many seniors would like to start over at a new company or even launch a new career, they decide there's too much at stake, says Mary Hladio, CEO of Cincinnati HR consulting firm Ember Carriers. In your 30s, you can absorb the risks of failure, she says. "In your 50s and 60s, it's over."

Weiner seems resigned to that notion. "I should work more diligently at upping my sales," he says. And so every morning, he shows up at the office in a crisp white shirt and tie, takes a seat on a partially deflated exercise ball (it's better for his back)

Ailika Thomas, 73, fuels a long commute with energy drinks and books on tape.

10% *Want to make sure there's enough to retire comfortably*

16% *Lack of faith in Social Security*

and starts making calls. The goal: to pump his commissions back to pre-2008 levels. After all, the family needs $150,000 a year just to stay afloat.

According to government estimates, the over-65 set is the fastest growing segment of the working population: More than 7 million are punching the clock, a 27 percent increase since 2007. But they're still rare unicorns at the office. In all, they make up less than 5 percent of the labor force, although the percentages are higher in some white-collar precincts like medicine and academia. (About one out of seven tax preparers is over 65, according to the Urban Institute.) In most venues, a silver-haired professional can stick out like a 6-foot Swede on the Tokyo subway. Take a lunch-hour look around any downtown business district, and you have to wonder: Where did all the old people go? And that leaves older workers facing yet another problem: how not to stand out.

Blame it on advertising, or idiocy, but the workplace now favors the young, and old folks who stick around encounter an alien universe. Underlings dismiss their ideas as dated. Most work perks—casual dress codes, boozy corporate retreats, parental leave—target young workers, says Christina Stovall, a director at Dallas-area HR consultancy Odyssey OneSource. Even corporate training is aimed at tech-savvy kids. An oldster might need extra help navigating the new expense system, but she's supposed to make do with a webinar. And where high-level seniors of an earlier generation might have escaped the awkwardness with a generous retirement offer or a buyout deal, many older professionals today find that's no longer an option, says New York executive representation attorney Wendi Lazar: "We're seeing lean and mean packages for senior-level executives all the way down." Indeed, older workers face discrimination that manifests itself in a thousand subtle ways. They're typically overlooked for promotions and coaching because they're considered unteachable or nearing retirement, says New York employment attorney Salvatore Gangemi. And while employers can't fire someone for hanging around too long, they can make office life difficult: Seniors are given impossible accounts, stripped of their responsibilities or—worst of all—assigned a 27-year-old supervisor.

Put in that kind of position, few old folks complain. Instead, they try harder. Image consultants say older clients typically come in when they notice younger colleagues getting more attention at meetings. "The younger person is heard because they appear more cutting-edge," says Gloria Starr, who charges $3,850 for her weekend makeover seminars. Some spend thousands on hair, wardrobe and glasses—not to mention plastic surgery—to update their image. Stephanie Bickle, a Chicago communications coach, says she even sees clients seeking a more youthful voice. Older folks have dried-out vocal chords, which produce that gravelly effect, and they tend to put less energy into their speech, resulting in slower, softer, monotone delivery. Yes, you can sound younger, or at least come off as "ageless," says Bickle. She had one CEO strengthening his voice by shouting Shakespeare and singing along with Elvis every morning, though it took months to build his stamina.

Ron Cohen started feeling out of place in his seventh decade. A straightforward, towering 75-year-old with pale eyes and a beak of a nose, he ran his own food brokerage, consulting with chefs at some of New York's finest restaurants, including Per Se and the Four Seasons. He could walk into the kitchen as if he owned the joint and deal with fearsome chefs on equal footing. "Unfortunately," he adds, "I got older."

Back in the day, chefs invited Cohen to their dining rooms for coffee and cigarettes. But the new generation of young kitchen execs is far more pressured and harried. "I had to follow them around the kitchen," he says. And while he didn't take it personally, he found it hard to connect with a multitasking 25-year-old: "They're not looking at you," says Cohen. "They're texting. They're e-mailing." Two years ago, Cohen closed the food brokerage to try software sales. He did well, selling 15 systems his first year out, but he got a lot of gentle ribbing from

COMMUTE TIMES

Average American's:

50 MINUTES

Ailika Thomas's:

180 MINUTES

Photograph by Tim Klein for SmartMoney

13% *Can't afford to retire*

5% *Law changed the minimum retirement age*

coworkers for his poky ways on the computer. "It was, 'Come on now, Ron, you gotta keep up,'" he recalls. "And there I am, running to keep up!"

Cohen remembers the old movies about Sitting Bull. The young braves did the hunting and fighting, but they took their marching orders from the venerable chief. Now, everything is backward. Society values technical know-how over wisdom and experience, and that's the province of the young. Because Cohen can't afford to retire, he's found another part-time job. At one point, he'd considered looking for work helping fellow seniors, but instead he took a job selling a kitchen gadget that restaurants use to scour pots and pans. And he's off to a good start, he boasts: A few months into the job, he's already sold out his entire inventory.

Not every employer devalues the Ron Cohens of the world. Some are beginning to appreciate the unique strengths—people skills, accrued wisdom and a strong work ethic—that seniors can bring to the table. A knowledge-based business depends on older folks with experience, says Vic Buzachero, senior vice president at Scripps, the $2.3 billion hospital giant based in Southern California. To retain its best doctors, nurses, executives and pharmacists, the company offers a "staged retirement" program, which lets professionals work part-time (as little as 16 hours a week) while collecting full-time benefits, including health coverage. The program saves the hospital money, he says, because it keeps experienced workers in hard-to-fill roles. Older workers who want or need longer hours can move to a schedule of three 12-hour days, allowing them to ease into the retirement lifestyle.

Scripps isn't the only outfit hanging on to seasoned employees. Principal Financial created a formal staffing program that brings retirees back for part-time temp work while they continue to collect pensions. "They know the culture and they know their way around," says HR director Polly Heinen. The typical employee returns three to six months into retirement, taking short-term assignments doing clerical or administrative work for 10 to 20 hours a week. And at Cornell University, professors and staff can spend their last few years on a custom-designed reduced schedule (one semester on, one semester off, for example) if they accept a commensurate pay cut. Often, the university encourages the employee to work out a multiyear agreement that includes a specific end date: It gives both parties an opportunity to plan the transition.

Granted, such programs are exceptional. According to the Society for Human Resources Management, just 6 percent of U.S. companies offer formal "phased retirement" programs, down from 13 percent in 2006. The perk evaporated during the recession, when the balance of power swung back to employers, says Deborah Seeger, cofounder of Patina Solutions, a Milwaukee firm that pairs senior professionals with contract jobs in law, accounting, engineering and finance.

Still, some workforce pros think the current employment scene likely represents a bottom for seniors. The labor market's move toward benefit-free contract work may actually favor older workers, especially those old enough to get health insurance through Medicare. Seeger, whose firm doubled its business last year, says her clients are happy to pay $75 to $150 an hour for the services of an experienced professional who can hit the ground running and is not just willing but eager to take on a short-term engagement. Already, seniors are in high demand among nonprofits and other industries, like health care, that require good people skills and the deft touch that only comes from decades of experience. (Of the 50 companies on AARP's list of top employers for older workers, almost half are health care companies.) Not every retirement-age job hunter can find his or her way into one of these senior-friendly positions, of course. But if the stock and housing markets recover, seniors stuck in jobs they hate will likely be among the first to bolt.

AVERAGE PAY CUT (ON TAKING A NEW JOB)

Workers ages 24 to 34:

2%

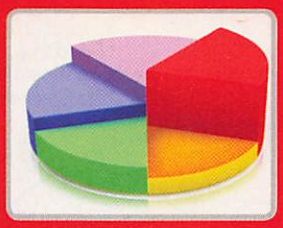
Workers over 62:

36%

In the meantime, some are learning to enjoy the fate that's been thrust upon them. When James Mullinex took early retirement from Verizon back in 2003, he was a senior systems engineer. He had to go back into the workforce after the 2008 market collapse, and the 70-year-old spent two years looking for work before landing a $13-an-hour job driving a van for fellow seniors. He takes his peers on picnics and beach excursions around Seattle. "I actually enjoy it—the people are very nice," he says. It feels a little ridiculous working for a third of his old wages, but he's taking it in stride. "Some people retire in good times, some in bad times," he says. "It's the luck of the draw."

For a look at some of the industries that have been opening their arms to older workers, visit smartmoney.com/mag.

Expert Advice



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EURO
Can the continent's coin withstand a Greek default?
YUAN
AUSTRALIAN DOLLAR
It's kicked the greenback's butt over the past three years.

THE CURRENCY

Last year, Main Street investors poured $4.7 billion into foreign-exchange funds. But are they really playing in the same market as the pros?

By Reshma Kapadia

FOR A BRIEF SHINING MOMENT LAST SUMMER, the path seemed utterly clear. President Obama and leaders in Congress were battling fiercely over the U.S. debt ceiling, policy makers in Europe were squabbling about how to deal with their own mounting sovereign debt loads and imminent defaults, and major bond raters were threatening to put a credit pox upon all their houses. The political wrangling was driving down the stock market and swinging a wrecking ball across retirement plans everywhere. It was a nail-biting time for tens of millions of people. But to Ian Naismith, such terrible news seemed like pennies from heaven.

Foreign-exchange trading, or "forex," is a game of schadenfreude—where one country's currency benefits from another nation's economic misfortunes. So Naismith, who began investing in currencies five years ago and runs a fund, Currency Strategies,

Photographs by Sam Kaplan for SmartMoney

CONUNDRUM

that had beaten its benchmark by four percentage points the year before (a romp in the forex world), bet heavily on currencies of countries that seemed to be at the peak of fiscal health. Brazil and Australia, for instance, were commodity-rich and sitting on hefty budget surpluses. The Swiss franc, no surprise, also looked rock-solid; it had long stood among the world's most stable currencies. But as the summer wore on, Naismith found himself second-guessing a half-dozen of his biggest calls.

Just as he was about to pull the trigger on a trade, the dollar, for example, would reverse course. The ceaseless stream of market-rattling headlines—from America losing its centuries-old triple-A rating to setbacks for China's manufacturing sector—threw the seeming order of schadenfreude into *chaos* (which is German, it turns out, for chaos). As policy makers raced to save the euro, the currency fell only modestly, not even approaching its three-year low against the dollar. The "safe haven" Swiss franc, meanwhile, tanked—not because Switzerland's economic prospects had changed, but because safety seekers were pushing the franc too high. Central bankers around the world intervened, sending the currency tumbling about 10 percent against the dollar—a jaw-dropping move in a market where investors routinely "double down" on bets by way of leverage.

Naismith's boutique-size $14 million fund, which trades under the apt symbol FOREX, tumbled further in the fall, hitting a low in October. Then another low in November. Ditto in December. "It was a horror story," says Naismith, who finished his roller-coaster year down 3.7 percent. "We just got whipsawed."

So, for that matter, did nearly every other fund manager in the currency game. A few years ago, such Sturm und Drang in the foreign-exchange trade wouldn't be major news to anyone,

THE WORLD vs. THE U.S.

except for a clique of high-powered bankers, a few dozen hedge funders and any overseas traveler changing large sums of money at the Newark airport currency kiosk; for everyone else, it would be ho-hum. But last year, Main Street investors—in large part encouraged by their financial advisers—charged into the currency market in such numbers that one might have assumed they were giving away a free pony with every new account. Investors poured $4.7 billion into currency-related funds in 2011, even as they pulled money by the trunkload from both domestic and foreign stock funds. The daily volume in the currency market, already at a staggering $4 trillion, is expected to more than double by 2020, in part because of interest from smaller traders, according to UBS. And retail investors now account for 8 percent of that volume, notes research firm Aite Group, up from less than 1 percent a decade ago. For a market long dominated by central bankers, corporate treasurers and wealthy speculators, the change, say experts, has been dramatic.

The reasons for this sudden enthusiasm are painted on many a brokerage performance statement. While many investors have been looking at a sea of red in recent years, hedge funds and other institutional forex traders followed by the Iowa-based BarclayHedge research shop have been awash in green. Since 1987, the Barclay Currency Traders index, which tracks such players, has logged only four down years, without a double-digit loss. In contrast, the S&P 500 has been down six times over the same period, with four of those losses exceeding 10 percent. What's more, these consistent, if generally modest, gains have historically come with another, more surprising, selling point: stability. Over the past decade, currencies have actually been half as volatile as stocks and have tended to move in a direction that's largely distinct from the trading patterns of stocks and bonds, according to currency- and bond-trading firm Merk Investments. Indeed, as financial advisers increasingly urge clients to "diversify, diversify, diversify," it has been the latter of these qualities—an independence from the stock and bond markets—that has launched the forex frenzy. That and "the fact that nothing else was working," concedes adviser Kenny Landgraf, who heads up Kenjol Capital Management, in Austin. Over the past year and a half of dizzying stock volatility, says Landgraf, currency investing was supposed to be, well, "something else."

And so it is. But therein lies the catch, in fact: Forex investing is something else entirely—or, make that two something elses. As it turns out, the trading realm in which most retail investors make their bets is far different from that in which the institutional giants roam. The currency names—euro, yuan, peso, rupee—may be the same for each, and the same global news may blare endlessly across each domain, but there the similarities end. And the differences in the way trading works for the big and little fish often have a dramatic effect on returns. On average, investors in currency mutual funds lost 3.3 percent in 2011, after fees, according to Morningstar—a return that trails not only the broad stock market (the S&P 500 was up 2 percent, including dividends), but also professional currency traders (by about the same margin). And 2011 was no fluke: It was the fourth year in a row that currency mutual funds—where some 70 percent of new retail forex dollars are flowing these days—did significantly worse than institutional traders, as measured by the BarclayHedge index. An investor who put $10,000 into an average currency mutual fund in 2009 would be down roughly $500 today; had he put the same amount into the average currency hedge fund, he'd have turned a $700 profit—a striking $1,200 difference.

And as for stability—that major selling point for the asset class? Lately, it's been illusory. Instead of offering shelter from the stock market's storm, currencies were on the leading edge of a financial hurricane, as the global debt crisis sent the euro reeling and other coins of the realm flying this way and that. (Even in the typically stable Swiss franc, volatility jumped 40 percent above its historical average.) Experts, moreover, say those suddenly rocky trading patterns aren't likely to flatten out soon—which, for some folks, raises the question: Should investors forget this something else and start looking for another? After all, wild swings and red ink: You can get those in the stock market.

AS FINANCIAL REALMS GO, THE FOREX market is so gargantuan that it's hard to fathom, with $4 trillion worth of trades made every day. That's almost five times the daily volume of the U.S. bond market—or put another way, a dollar amount in trades rivaling Germany's annual economic output...every single day. Even so, the essence of currency trading is fairly simple: In each trade, an investor buys one currency and sells another—betting that the first will rise in value against its counterpart. Buying "euro/dollar," for example, means one buys a unit of euros and sells the equivalent amount in dollars, profiting if the euro subsequently rises in value against the greenback. A generation ago, investor George Soros famously took that two-step to near mythic proportions, making a reported billion-dollar profit on a heavily leveraged bet against the British pound—on a single autumn day in 1992. More recently, even in a difficult 2011, a handful of hedge funds logged double-digit gains, according to Hedge Fund Research. Leverage, naturally, can just as easily work to the opposite effect. FX Concepts, one of the world's largest currency hedge funds, lost 17 percent in 2011. (Lead manager John Taylor cites poor timing on his calls, especially around the euro.)

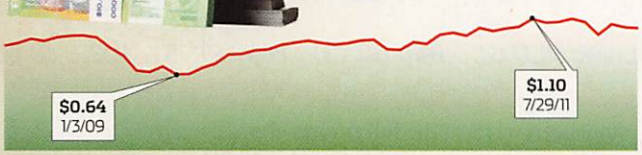
Few individual investors, of course, are giving Soros a run for his money, but a small share—particularly those who have used exchange-traded funds to access the currency markets—have done remarkably well in recent years. While exchange-traded

Investors looking for stability in the currency markets have gotten anything but that of late. Here's how some prominent foreign currencies have fared against the U.S. dollar over the past few years.

VALUE OF CURRENCIES IN U.S. DOLLARS, WITH THEIR HIGHS AND LOWS FOR THE PERIOD 12/30/07 THROUGH 12/30/11.

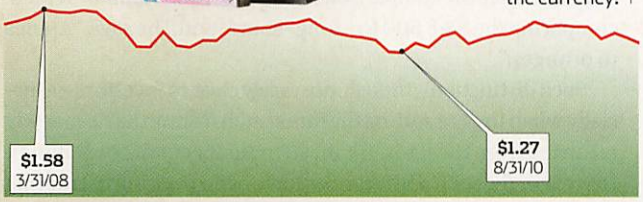
AUSTRALIAN DOLLAR

One of the best-performing currencies against the U.S. dollar over the past three years, the Australian dollar is also one of the more volatile, undergoing wide swings in response to global economic headlines.



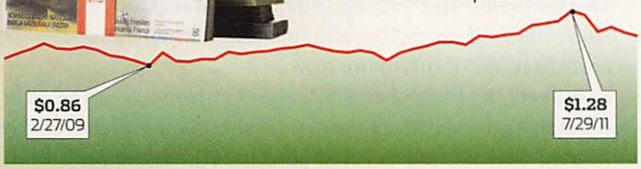
EURO

Despite the Continent's fiscal crisis, the euro held up better than most analysts expected in 2011. But Europe's ills—especially concern about a Greek default and trouble in Portugal—are catching up to the currency.



SWISS FRANC

In 2011, it had the highest volatility of any major currency. The franc drew a huge influx of investors last year, then suffered a 10 percent one-day decline when the Swiss National Bank acted to drive the price back down.



BRAZILIAN REAL

The real has fallen by 10 percent against the dollar in the past year, as investors have fled emerging markets. But many fund managers still favor it because of Brazil's fast-growing, commodity-rich economy.

YUAN

After earlier stops and starts, China let the yuan's value float on a limited basis in 2010. Forex.com strategist Brian Dolan expects the yuan to become more popular as China's economy keeps growing.

YEN

Even last year's devastating earthquake didn't shake the yen, up 8 percent in the past year. Despite Japan's weak economy, strategists expect cautious investors to favor the yen.

CANADIAN DOLLAR

The loonie, as Canadians call it, is closely linked to commodity prices and takes a beating in market panics. But many strategists favor it over the U.S. dollar because Canada is in better fiscal health than its neighbor.

SOURCES: BLOOMBERG; FOREX.COM; MERK INVESTMENTS

A DAY IN THE LIFE OF THE **CURRENCY MARKET**

The Swiss franc plunges, the beleaguered euro spikes, and the Indian rupee hits a nine-week high against the dollar. In the $4 trillion currency market, such big moves are almost routine.

Trading on 1/18/12; all times are Eastern; currency prices are as of the close of New York market.

12:17 AM

Australian dollar rises during Asian trading, ignoring consumer confidence figures that show only a modest uptick.

12:45 AM

Report says China is likely to ease monetary policy. Euro ticks up against U.S. dollar and yen.

4:30 AM

Barclays Capital predicts another up day for the pound, just as the December jobs report shows U.K. unemployment at its highest level since 1995.

9:53 AM

Swiss franc plunges in New York trading, but traders blame human error rather than intervention by the Swiss National Bank. Euro spikes 0.5 percent against the franc—a big move by currency-trading standards.

WON $0.0009...KRONE $0.17...DIRHAM $0.27...EURO $1.29...BOLIVAR $0.0002...BAHT $0.03...PESO $0.75...RUBLE $0.03...

funds that were focused on currency bets trailed the Barclay-Hedge index in 2011, losing just over 2 percent, those ETFs actually beat the pros in the preceding two years, by two percentage points in 2010 and by a whopping eight points in 2009. (In 2009 and 2010, explains Terry Tian, currency analyst at Morningstar, ETF investors rode two currencies in particular, the Brazilian real and the Australian dollar, to big heights as the U.S. dollar fell in return—a bet that was dead wrong in 2011.)

But truth be told, the spikes in currency ETFs, which account for a small share of forex trading, have been pretty much the only upbeat story for individual investors in this realm. For their part, veteran traders say retail currency investors are unlikely to beat or even match the performance of hedge fund managers over the long term—for the simple reason that the latter have more tools at their disposal to pick timely bets and can make far more on each bet in the process. That is to say, the big boys can use an abundance of leverage in their trading, something currency mutual funds don't (and frankly, can't) use. And then there is the matter of portfolio size: "The retail forex investor is like the short stack in poker," says Brown Brothers Harriman currency strategist Mark Chandler. "They are undercapitalized and can't absorb the volatility as well." Now throw in the fact that many retail funds limit themselves to trades based on the dollar—whereas some of the better currency-trading opportunities in a given day or month may not involve the dollar at all, says Brian Dolan, chief currency strategist for online retail trading platform Forex.com. For investors concerned about the future prospects of the euro as well as the dollar, for example, better options might include selling the euro and buying the Australian dollar or Norwegian krone. "You are suffering from a limited buffet with just three to four dishes," says Dolan. "In the spot market, you have the full smorgasbord."

You don't have to tell that to Alessio de Longis. The manager of the Oppenheimer Currency Opportunities fund understands full well the limitations forex mutual funds face. His portfolio, for instance, is geared to those who want to short the dollar, a strategy that doesn't work well in any year when the greenback is strong—which largely explains why the fund was down 4 percent in 2011. (De Longis also blames the volatility created by the magnitude of market shocks.) But the portfolio's very design, he says, makes the comparison with hedge funds unfair: "It's like comparing the S&P 500 to a long-short fund," he says. "Apples to oranges."

Such distinctions, though, are rarely clear to investors—especially when they're getting the forex pitch from an adviser newly returned from the latest financial industry confab or seminar. Increasingly, such conferences have been packing in training sessions on currency trading, says J.J. Burns, of investment advisory firm J.J. Burns & Co. But rarely do those meetings stress how uneven the playing field can be—or highlight what many experts now say is a new era of heightened volatility. "The fund companies are on an overdrive kick to sell alternative investments," says adviser Kevin Kautzmann, president of EBNY Financial in New York City, who began getting calls from firms pitching forex offerings last year. The currency mutual funds and ETFs, he says, are the latest fashion frenzy—following gold (two years ago) and real estate investment trusts (three years before that). "It seems they start pushing it when the asset class starts to peak," Kautzmann says.

Indeed, the biggest concern about currency trading—too much risk for too little reward—is making some advisers who thought well of this asset class start to rethink their position.

10:45 AM
India's rupee rises for the fifth straight day, for a nine-week high against U.S. dollar.

11:49 AM
Chile's peso closes at two-month high versus U.S. dollar on renewed optimism.

12:47 PM
Mexican peso rallies after IMF says it's "seeking up to $500 billion in additional lending resources" to fight the euro-zone debt crisis.

1:04 PM
Report says another Greek debt deal may be imminent. Euro closes up 1 percent for the day against the greenback.

3:48 PM
Canadian dollar posts modest gains, which traders say are linked to bond auctions in Germany and Portugal earlier in the day. New York trading closes 12 minutes later.

YEN $0.013...POUND $1.54...FRANC $1.06...RUPEE $0.02...YUAN $0.16...DINAR $0.09...SHEKEL $0.26...REAL $0.57...

"It's been just too tough to pick the battles" in a global financial market, says Jim Holtzman, of Legend Financial Advisors, in Pittsburgh, who has recently reduced his clients' currency exposure. Financial planner Jason Jenkins, CEO of Assetwise Investments, has reached the same conclusion. Trying to predict the currency markets is "taking the crystal ball to a whole new level," he says. "Even the smartest people get it dead wrong."

THERE IS, OF COURSE, A WHOLLY different way to play the currency market, say some investors, and that is the DIY approach. That has been the strategy of Jasmine Wang, who is part of a growing army of forex day traders—a group experts say is most responsible for pushing retail currency trading volumes to more than $310 billion in 2011, up from just $6 billion in 2001. Instead of trying to read the tea leaves of central bank reports and parse reams of global economic data, Wang, 45, typically relies on a handful of technical charts and on her own gut instinct. "Keeping it as simple as I can is the best way—otherwise, I won't ever make a trade," says Wang, who left her family's retail business in Old Bridge, N.J., in 2007 to day trade currencies full-time.

Still, day trading certainly is a strategy only for the brave, given that currencies can make hair-raising moves from day to day. According to a report by Aite Group, just 30 percent of all U.S. retail forex trading accounts are profitable in any given quarter—and no one knows how deeply in the tank the big losers are. Many do-it-yourself traders, including Wang, focus only on short-term dynamics, which can lead to some awfully large hits in a portfolio—especially when heavy leverage is used. (Retail currency traders can often borrow enough to turn a mere $1,000 in principal into a $50,000 bet; in the stock market, by comparison, the same trader would typically be able to leverage the same stake into just $2,000.) With such borrowing-to-bet tactics, naturally, a few big losses can quickly wipe out a small investor. Wang, for her part, admits she came close to that, losing $50,000 in her first year of full-time trading. But last year was a different story: She says she pulled in about $15,000 in profit, after fees.

In the end, the hope of making such tidy scores—whether through day trading, or buying ETFs or mutual funds—may be just enough to keep Main Street investors currency-curious for a while. In fact, despite the recent track record (and their own wound-licking), many financial advisers continue to see a case for allocating some of their clients' money to forex investing, if only as a hedge against the U.S. dollar—the one bet that nearly every U.S. investor has gone "all in" on. Kim Arthur, of investment advisory firm Main Management, which shepherds $400 million in assets, often finds himself sounding the same message to clients: Their salaries are paid in dollars, their homes are valued in dollars, and virtually all of their investments and assets are denominated in dollars. Wouldn't they feel safer, he asks, knowing that something they owned wasn't? It is the question that legendary investor Jim Rogers has been asking for decades. He believes that fortunes can be made in forex—but even if investors end up just above even in the currency market, he says, it is still worth investing in, if only as an "insurance policy." And in today's market, after all, having insurance may be as good as making money.

For a look at how currency fluctuations affect some of Americans' favorite consumer goods, see smartmoney.com/mag.

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TURNING TO GOLD

COURTESY OF WORLD GOLD COUNCIL

Investors wary of the dollar, euro and yen look to precious metals for diversification

BY CATHERINE BOLGAR

If you bought an ounce of gold back in December 2001 at the then-current price of about $278, as of mid-February, your investment would be worth $1,723, a rise of nearly 519 percent. Sweet, you say, but too late for me.

Maybe — or maybe not. There are plenty of reasons to add gold to your portfolio even now. Three trends are supporting demand for gold, says Juan Carlos Artigas, investment research manager at the World Gold Council in New York.

The first is instability in the financial systems in Western economies, which is sending investors to gold not only in Western markets but globally. The persistent U.S. economic doldrums, along with the inability to attack the U.S. fiscal deficit weigh on the dollar. Europe's government debt problems have raised questions about the very future of the euro. And Japan is still picking up from last year's earthquake and tsunami and faces longer-term challenges from a rapidly aging population.

Investors wary of the world's three major currencies thus have few other choices for hedging risk. So they have turned to gold, helping send the metal's price up.

Second, central banks' actions have shifted demand for gold, Artigas says. This shift comes from two sources. Central banks, notably in Europe, have been net sellers of gold over the past two decades or so, in order to diversify their portfolios from the legacy of gold reserves. With the 1999 Central Bank Gold Agreement, European central banks agreed not to sell more than a certain amount of gold each year and to signal the sales to the markets, to reduce gold's volatility. With that offloading of gold reserves mostly accomplished, European central bank sales have slowed.

Meanwhile, other central banks are buying more gold, especially in emerging markets. This is for the same reason as European sales — a need to diversify reserves. In emerging markets, however, the reserves are concentrated in U.S. government debt and some other Western government debt, Artigas explains. The slowdown of sales from European central banks and the uptick in purchases by central banks in China, Russia, South Korea and elsewhere in Asia means that central banks as a group are now net buyers of gold instead of net sellers.

The third trend: individuals in emerging markets, especially India, China and Eastern Asian countries, have increased demand for gold. The Indian subcontinent and the Far East made up 66 percent of gold demand in 2010, compared to just 22 percent in 1980. Demand for gold jewelry in China grew 13 percent in the third quarter of 2011 from a year earlier, and demand for gold bars and coins rose 24 percent. While China is the fastest-growing gold jewelry market, India is the biggest, accounting for 746 tons of gold in 2010, compared to 428 tons for China and 129 tons for the U.S.

"In India, there is a marriage between gold and investment," Artigas says. "Indian women tend to save money by buying gold bracelets or relatively simple jewelry. Also in many other Southeast Asian nations, access to gold is a traditional and well-understood way of saving."

In India, the number of people in the middle class grew by about 205 million people between 1990 and 2008. In the same period, China added about 844 million people to its middle class. The two countries' middle classes are forecast to total more than two billion people by 2030.

That's a lot of potential buyers of gold jewelry.

You could contend that gold has risen before, only to fall sharply. It hit $850 an ounce in January 1980, only to fall by 50 percent over the following two years. That high, in inflation-adjusted terms, would be around $2,200 today, and the current price is still shy of that.

One could argue that this time is different, the primary reason being the 1980 spike. The price doubled in just two months. During the bull market of the past 11 years, appreciation has been measured, at 18 percent or so a year, Artigas notes.

Perhaps the biggest difference between 1980 and the present is the development of emerging markets. In 1980, China was just thinking about opening its economy. India had no technology sector to speak of. Even though China is the world's biggest consumer of gold, its current demand is around 0.3 grams per person, far below the 1.25 grams per person in the U.S. The World Gold Council predicts China's demand for gold could double over the next decade.

Catherine Bolgar is a freelance journalist who writes about business, economics and finance.

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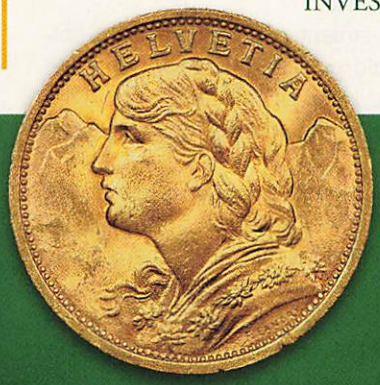

Swiss 20 Franc Helvetia

Weight: 0.1867 troy oz.
Purity: 0.900 (21.6 Karat)
Diameter: 21mm
Face Value: 20 Swiss francs
Minted: 1897 – 1949

Switzerland has long enjoyed a reputation for discretion, privacy and reliability in matters concerning money and banking. Their currency has remained among the most stable in world history, never having been devalued or reissued, and has often served as the currency of choice for the rich to retain their wealth. The Swiss Helvetia (more properly referred to as the "Vreneli") is a 20 Franc piece, first struck in 1897, and then minted with dates through 1935. Pieces dated 1935 were restruck following World War II (1945-1947) and form a sizeable percentage of the existing pieces. A final series was issued bearing the dates 1947 and 1949. It remains one of the world's most respected and secure gold coin issues.

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The American Buffalo, also known as the Gold Buffalo, is a 24-karat gold bullion coin first offered for sale by the United States Mint on June 22, 2006. The coin follows the greatly admired design of the Indian Head nickel and has gained its nickname from the American Bison on the reverse side of the design. This was the first time ever that the United States Government has minted a (.9999) 24-karat gold coin for the public. The coin has a legal tender (face) value of US$50.

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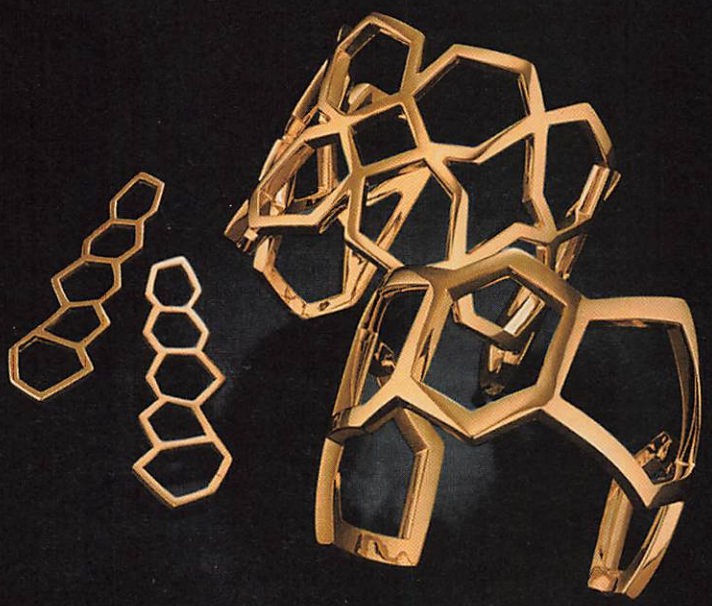
Ways to Invest in Gold

Gold is traditionally the go-to investment for people pessimistic about everything else. Gold has a low correlation to other asset classes: it usually goes up when everything else is going down. That gives it a stabilizing effect on an investment portfolio, says John Katz, co-author of *The Goldwatcher: Demystifying Gold Investing.*

There are many ways to invest in gold, from having a stock of the metal in your own possession to contracts in which you never see the physical ore. As with any investment decision, be sure to first consult with your financial advisor to discuss the best investments and allocations for your portfolio.



COURTESY OF WORLD GOLD COUNCIL/IMAGE JEFF HARRIS

GOLD COINS

Gold can be purchased in small amounts in the form of jewelry or bullion coins minted for investment — not collection — purposes, such as American Eagle, Krugerrands and Canadian Maple Leaf coins. The smallest coins are a tenth of an ounce.

With a minimum investment of a few thousand dollars, people can buy gold on a regular basis. "It's the ultimate insurance policy against inflation," says Tyler Gallagher, CEO of Regal Assets, a California precious metals dealer.

The attraction of gold ownership is having something tangible and valuable in your possession that can't be manipulated. "Physical possession is the securest way to invest in gold," he says.

It's also possible to invest in rare coins, whose value includes not only their actual gold content but also their numismatic value. In the past, the ratio between collectors and investors was about 90-10, but that has shifted to 50-50 in recent years, says Joseph A. Frisard, chief executive of C&B Asset Management, a Houston gold and coin dealer.

Rare coins can be like art, requiring expertise to understand the value. "If you're going to invest in rare coins and don't know a lot about them, then you need to know a lot about the person you're dealing with," he cautions.

GOLD BARS

You can buy gold bullion bars as well, but the minimum investment is bigger. The smallest bars are one ounce, but dealers often have a minimum purchase — for example, three ounces.

Another option is to buy gold bars that are kept in a vault via a bullion dealer. However, the minimum investment is usually 2,000 ounces for allocated gold (your bars are numbered and can't be touched without your permission) or 500 ounces for unallocated gold (you don't have specific bars and the depository can lease them), plus storage fees. Despite the feeling of security that comes with a protected storage environment, several gold firms say many of their clients tend to prefer to have their gold in hand or in a safe deposit box at a local bank.

GOLD ETFs

Even more accessible are exchange-traded funds. You can buy and sell them easily via a broker, even online, as you would company stocks or mutual funds. The minimum investment for the SPDR Gold Shares ETF, the first of its kind, is one share, which represents one-tenth of an ounce.

There are basically two kinds of ETFs: physical and synthetic. Physical ETFs buy gold bars and keep them in a vault — so they face storage fees. Synthetic ETFs buy derivatives that are supposed to track the price of gold — except that sometimes they don't. That's because each day the synthetic ETFs' managers must find

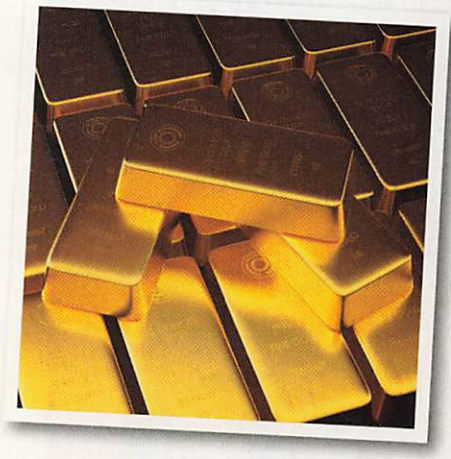
CONTINUED ON NEXT PAGE

WHAT ARE BILLIONAIRES INVESTING IN?

IF YOU KNEW FOR CERTAIN which investments the billionaires of the world were pursuing, would it make a difference in your approach to investing? Sure it would. After all, you don't get to be a billionaire by making foolish investment decisions.

Regal Assets, a leader in the physical precious metals market, has the insider information on what the wealthiest people in the world are doing to protect their wealth. What is their secret?

"How confident are these billionaires that owning physical GOLD is a sound strategy?"



Billionaires around the world are investing in GOLD in a big way.

The world's wealthiest man Carlos Slim and multi Billionaires Warren Buffet, George Soros, John Paulson, Thomas Kaplan, Seth Klarman, Eike Batista, Carl Icahn, Paul Tudor Jones, Eric Mindich and Mikhail Prokhorov who have a combined net worth of $233 billion; have all been making aggressive investments in precious metals. They see gold as a perfect hedge against the coming economic times. Billionaire **Mikhail Prokhorov** with over $6 Billion in gold said "...we'll see a global trend for raw materials and gold is not an exception". **John Paulson** says "Gold can easily pass $2,400 per ounce, reaching up to $4,000 an ounce within 2012" and he backs up his word with more the $4.6 Billion invested in gold. Similarly **Thomas Kaplan** with over $2 billion invested in gold said [the question will soon change to] "Where do we get the gold".

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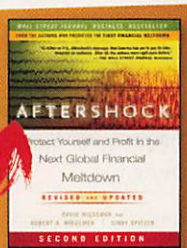

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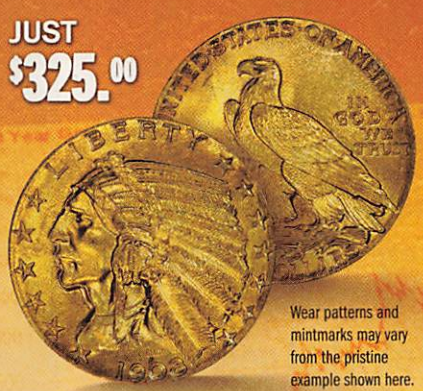

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assets like index swaps and futures contracts that allow them to deliver on their daily promise of tracking the index, explains Seddik Meziani, chairman of the economics and finance department at Montclair State University and author of *Exchange Traded Funds - Conceptual and Practical Investment Approaches*.

Hitting the index exactly is difficult, leading to "tracking error." This divergence compounds over time, which makes synthetic ETFs unsuitable for long-term investment, says Dr. Meziani. Synthetic ETFs generally are meant to be held for hedging or speculative purposes for only a day or a few days.

Synthetic ETFs roll into new futures contracts as the current ones expire; if the new contract is more expensive than the one that's expiring, you lose, but if it's cheaper, then "you have wind in your sails," Dr. Meziani says.

If you think gold has hit its peak and you want to bet on its fall, you can buy an ETF that is based on derivatives such as call options that will profit if the price of gold falls.

GOLD MINING STOCKS

It isn't surprising that the shares of gold mining companies tend to follow the price of gold. Buying stock in these companies, either individually or through mutual funds or ETFs of their shares, is another way to invest in gold without having the physical metal.

There are plenty of companies to choose from — more than 300 listed in the U.S. alone. ETFs and mutual funds provide a way to diversify within the sector and also to get in and out of the market quickly.

OPTIONS AND FUTURES

Futures and options allow investors to use leverage — paying a fraction of the contract cost. This multiplies gains if the investor bets correctly, but magnifies losses if the investor bets wrong.

Futures are a contract to buy a certain amount of gold by a certain date at a certain price. If you don't want to take delivery of the gold, you must roll over the futures contract before the expiration date.

Options give you the right but not the obligation to buy the gold, so if the price goes against you, you can simply not exercise the option. That limits your loss to the premium you paid.

While you can buy futures or options yourself, such vehicles can be risky for individual investors and the minimum investment is usually 1,000 ounces, which is a hefty sum for the average investor. In addition, you may need to have a private banking account with a bullion bank — also difficult for the average investor to acquire.

Keep in mind that options and futures are higher-risk instruments that require a great deal of hands-on management by an investor. It's wise to work with your financial advisor to determine the best investment strategy for your particular needs.

— C.B.

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The purpose of these coins was to give people the opportunity to own physical silver and gold in a form certified for weight and purity by the U.S. Mint. While the bullion coin program was a signal success, nobody took into account the profound effect it would have on the collector market.

Silver Eagles = Today's Morgan Dollars

In the 1800s and early 1900s, the U.S. Morgan Silver Dollar was struck year upon year at various mints and circulated at face value. Their core value was in their precious metal content. However, in top grades, Morgan Silver Dollars can sell today for tens and even hundreds of thousands of dollars each!

For the same reason, many collectors today see the Silver Eagle series as a literal "ground floor" opportunity to acquire the top-grade coins as they are released. They started submitting Silver Eagles to the leading independent coin grading services, such as Numismatic Guaranty Corporation (NGC), praying that the coins would come back with the highest possible grade: MS70 (all Uncirculated coins are graded on a point system from a low of 60 to a high of 70, with 70 representing flawless perfection). Of all the Silver Eagles produced by the U.S. Mint in 2011, less than one out of every 788 earned the NGC MS70 grade!

MS70 = $$$$$!

In the rarified atmosphere of MS70, Silver Eagles have soared to market prices that I can only characterize as surreal. Consider this: MS70 Silver Eagles have been selling for truly stratospheric prices. Here are just a few eye-popping examples:

1996 MS70 Silver Eagle	$5,340
1988 MS70 Silver Eagle	$2,660
1991 MS70 Silver Eagle	$3,910
1994 MS70 Silver Eagle	$1,660

It Just Keeps Getting Better

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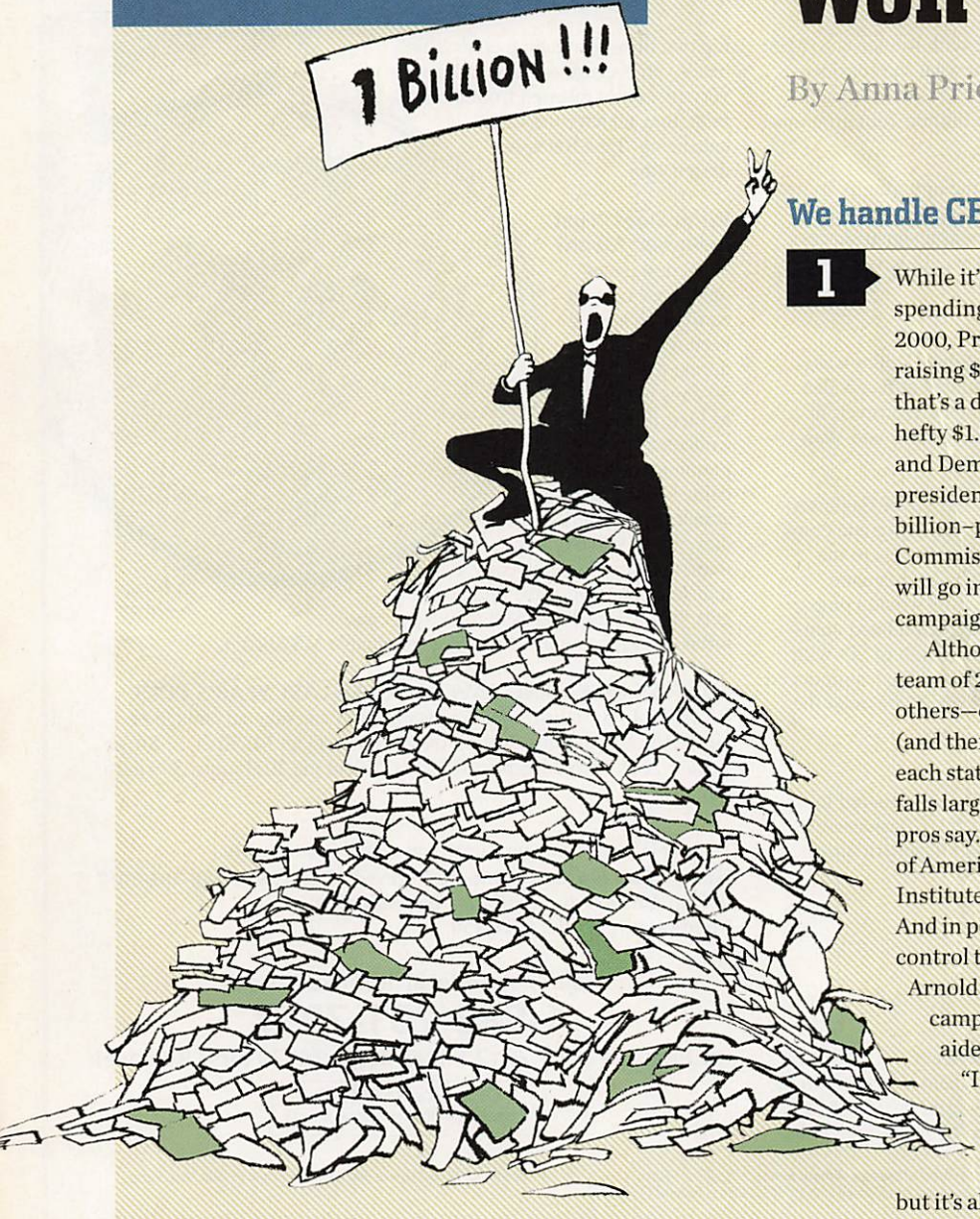
10 THINGS

Campaign Managers Won't Tell You

By Anna Prior

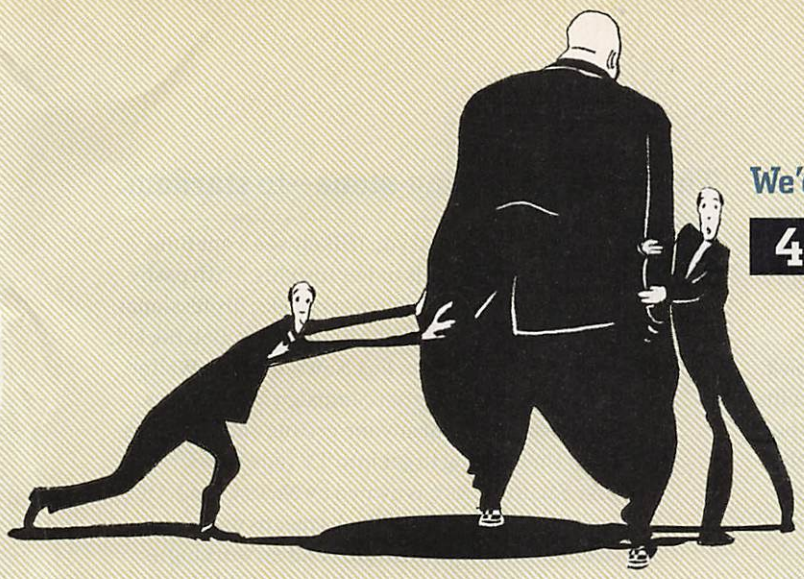


We handle CEO-worthy budgets...

1 While it's been growing for decades, campaign spending is set to reach new heights this year. In 2000, President George W. Bush broke records, raising $100 million before the primaries. But that's a drop in the bucket compared with the hefty $1.8 billion spent between the Republicans and Democrats in preparation for the 2008 presidential election—not to mention the $1 billion–plus that former Federal Election Commission Chairman Michael Toner predicts will go into President Obama's reelection campaign alone.

Although in presidential campaigns there's a team of 20 to 40 people—accountants, lawyers and others—charged with handling financial issues (and there's often even a fund-raising chairman in each state), the responsibility of budgeting still falls largely on the campaign manager's shoulders, pros say. Essentially, says Candice Nelson, director of American University's Campaign Management Institute, they're running small businesses. And in politics, as in business, good managers control the money, says Steve Schmidt, who ran Arnold Schwarzenegger's 2006 reelection campaign for California governor and was a top aide on John McCain's 2008 presidential bid. "It's a fundamental line of demarcation" between those who are effective and those who aren't, he says. "Political maneuvering gets the attention, but it's all nonsense if you don't have the resources to apply it."

Illustrations by Istvan Banyai for SmartMoney



...but we never took Accounting 101.

2 Few campaign managers have a business background, yet some admit that, given their dual CEO–COO roles, they could use a crash course in accounting, at the very least: "It's something, in retrospect, I wish I had done," says David Kanevsky, who ran the 2010 campaign of Rep. Charlie Bass (R–N.H.). The reason many don't? Besides the fact that it's often not among the required courses for poli-sci majors, there's little incentive to pursue financial training, much less a degree. After all, you move up the ranks based on what you learn on the job, who you know and how often you win, says Kanevsky. Well-known pundit James Carville, for one, worked as a litigator, high school teacher and military service member before running President Clinton's winning 1992 campaign. "It's a street-smart business," says Schmidt, McCain's aide.

The Do Not Call Registry can't touch us.

3 The nonpartisan Pew Research Center reports that 47 percent of registered voters received automated calls about the 2008 presidential campaign, and a whopping 69 percent received them during the 2010 midterms. Coming from most businesses, this kind of harassment is against the law—but the law doesn't apply to candidates. When the National Do Not Call Registry was created in 2003, lawmakers exempted them, arguing a right to free speech. But critics like Shaun Dakin, founder of the nonprofit Citizens for Civil Discourse, say the law only benefits lawmakers. Now, every campaign "from dogcatcher to president" uses robocalls, he says. Voters can register with Dakin's National Political Do Not Contact Registry at StopPoliticalCalls.org. Better yet, he suggests: Don't put a number on the voter-registration form.

We'd rather not discuss our pasts.

4 Unlike candidates, campaign managers are expected to stay out of the spotlight. But as a candidate gets closer to being elected, senior staffers may find it increasingly difficult (and crucial) to keep to the shadows. The campaign of former Republican presidential primary candidate Herman Cain, for instance, was well under way when it came to light that Mark Block, his chief of staff, had faced a lawsuit from the Wisconsin Elections Board (the suit was settled; Block denies any wrongdoing and tells SmartMoney that the accusations were politically motivated and that "politics is a blood sport.") And Dick Morris, the strategist on President Clinton's 1996 campaign, resigned when tabloid reports of infidelity with a prostitute surfaced. "The more the news talks about the campaign, the less they're talking about why a candidate should be elected," says Dan Kelly, who ran the 2010 campaign for Connecticut Gov. Dan Malloy, a Democrat.

We did well in the polls? We made the polls.

5 Things aren't as rosy as they appear. If you watch an ad or read that a candidate is doing well in the polls, there's a good chance that the favorable number came from the candidate's campaign (unless otherwise noted). Roughly 10 percent of a campaign's budget goes to research, which includes public polling and digging up dirt on the competitor ("opposition research"), and if the numbers come back in the candidates' favor, campaign managers will trumpet them, or find a way to spin negative numbers into something more positive. That's not to say that polling data isn't accurate, say experts, but voters should always take numbers with a grain of salt. Polling data is often used to persuade voters to not just vote for a candidate, but to also open up their wallets. "It's great for fund-raising," says American University's Nelson. "They'll say, we're up 10 points since last month—now you should contribute!"

We like winning...cash bonuses.

6 Of course, many managers talk about wanting their candidate to win for the sake of the public good, but there's a much less noble concern at play: cold hard cash. Win bonuses are often negotiated at the start of a campaign manager's stint, says Holly Robichaud, a political consultant in

Massachusetts who's managed local, state and federal campaigns. Losers may be out of luck, but the prize for winning can be an additional one or two months' salary (salaries can run $2,000 to $15,000 a month, or around $100,000 a year, depending on the candidate and the size of the race), say experts. Plus, some candidates will pick up the tab on health insurance and cell phone bills. It's a way to incentivize people, say experts, to put in the grueling hours the job demands. But in the end, says McCain's aide Schmidt, it's more about the game than anything else: "It's so competitive and there's so much pressure—winning for the sake of winning becomes the superior instinct."

The money you send doesn't reach us.

7 Before you write that check to a candidate, know that there's a chance your donation could end up in someone else's pocket. While TV, print and Web ads, along with administrative costs, eat up the majority of the budget, a percentage goes to the candidate's party or to other candidates. In the 2008 presidential election, the Obama campaign doled out nearly $46 million, or 6 percent of its total spending, to those groups, according to the nonpartisan Center for Responsive Politics. People who wish to contribute, experts say, should note the difference between donating to a campaign and giving money to a leadership political action committee, or PAC: Most of the former's budget is spent on the campaign; the latter funnels money to other campaigns and politicians.

We'll work for (almost) anyone.

8 While managers rarely jump from party to party, it's not uncommon to see some intraparty switching of support. Barely a month after Jon Huntsman formally began his bid for the Republican presidential nomination, for instance, his campaign manager, Susie Wiles, resigned and several months later endorsed team Mitt Romney (she decided he would "be best at running against Barack Obama," she says). Often, there are some litmus tests that managers use in picking a candidate, say experts, especially around hot-button issues like abortion or gun rights. But ultimately, it comes down to who has the best chance of winning: "It was [conservative activist] William Buckley who said to go with the most electable conservative in a Republican presidential primary," says Kanevsky, Bass's former manager.

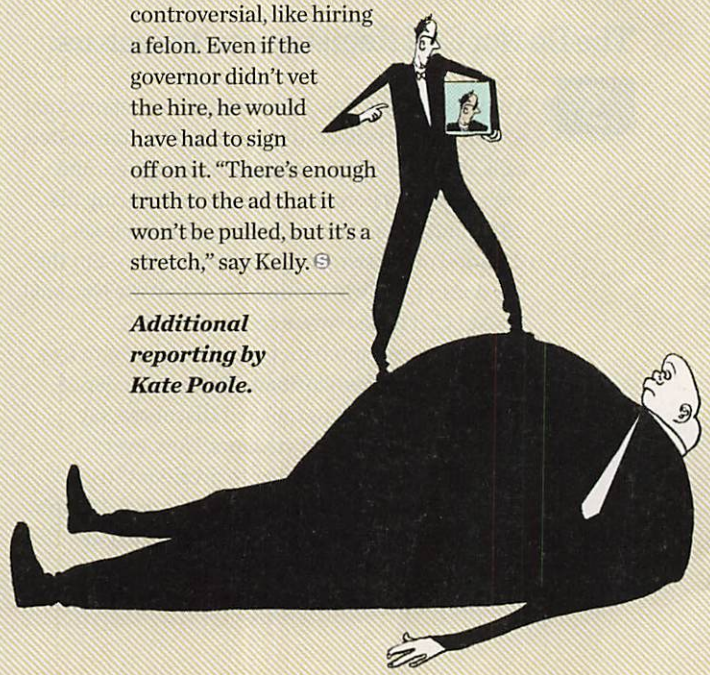
This job is a stepping-stone—to stardom.

9 Turn on the TV and you'll likely see a onetime manager sharing his or her insights. With cushy salaries and reasonable workweeks, professional punditry is nice work if you can get it. Bob Beckel, cohost of *The Five* on Fox News, who ran Walter Mondale's presidential campaign in 1984, says he doesn't know of anyone getting out of politics who isn't hoping to get into TV (Fox News, like SmartMoney, is owned by News Corp.). Of course, the dearth of TV jobs means many former campaign managers end up working as highly paid political consultants or lobbyists instead, or they leave politics altogether, say insiders. "Campaigns are a young man's game," says Beckel. "If you stay, you'll die prematurely."

Sometimes we play dirty...very dirty.

10 The win-at-all-costs mentality of campaigns can wreak havoc with ethics. Recently, Paul Schurick, who in 2010 ran the campaign for former Maryland Gov. Robert Ehrlich Jr., a Republican, was convicted on four counts related to campaign robocalls, which prosecutors said were intended to discourage black voters from hitting the polls. (Schurick's lawyer declined to make his client available for comment prior to sentencing, though he said they plan to appeal the ruling.) More common are tactics that may be legal but not honest. One trick, says Kelly, the 2010 manager for Connecticut governor Malloy, is to make a negative ad saying that an incumbent mayor did something controversial, like hiring a felon. Even if the governor didn't vet the hire, he would have had to sign off on it. "There's enough truth to the ad that it won't be pulled, but it's a stretch," say Kelly.

Additional reporting by Kate Poole.



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BY JIM WALSH

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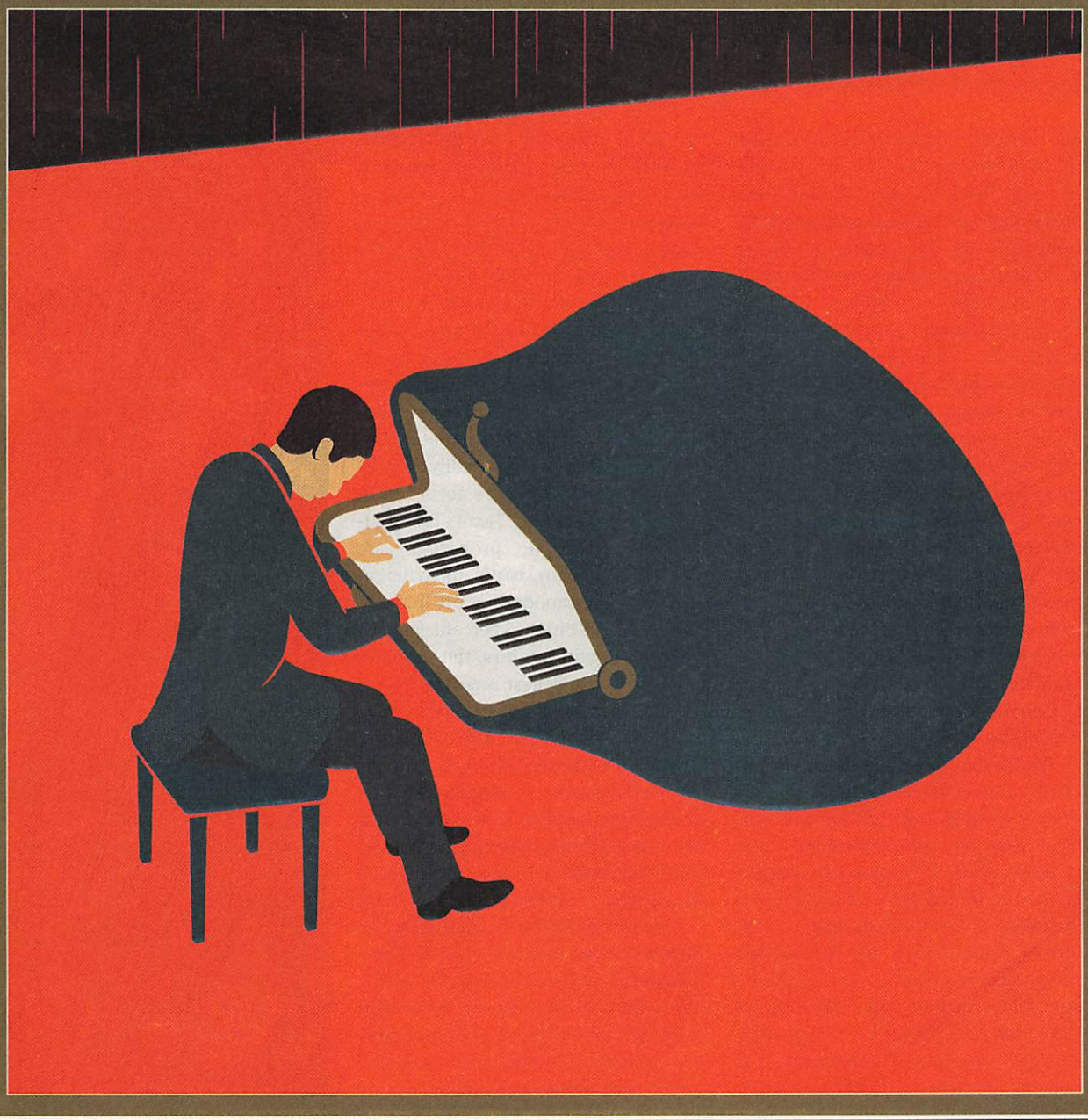


Illustration by Francesco Bongiorni for SmartMoney

Rich Hood, Poor House

Stunningly low-priced homes are turning up in some chic neighborhoods. Can they be fixed up enough?

By Alyssa Abkowitz

IT'S EASY TO SEE why Jeff and Heidi Jackman coveted a home on Three Mile Drive in Grosse Pointe Park, Mich. Manicured lawns and gracious mansions flank the wide boulevard, which is less than a mile from the shores of Lake St. Clair but still just a short commute to Detroit. So when a large brick Tudor on the prestigious street hit the market for just under $500,000—a fraction of what most mansions in the area sell for—Jeff Jackman jumped at the chance. The deal got even sweeter once he learned that the home, complete with maids' quarters and hand-painted bathroom tile, used to belong to the Kmart founding family and once served as a crash pad for pop stars the Black Eyed Peas.

But the once-posh mansion wasn't exactly ready for move-in day. Overgrown shrubs masked much of the yard. The hardwood floors looked like they'd been ravaged by wolves. The kitchen had white laminate countertops (coffee cup stains included), there was peeling paint in the former ballet studio, and the laundry room appeared better suited to clean a stray cat than a dress shirt. "It needs some TLC," says Jeff, a local business owner.

Have you heard? Apparently the housing market is in pretty bad shape. But while we've all seen the endless stream of doom and gloom stories about today's real estate, a few brave—and possibly delusional—souls are finding an unexpected opportunity in the midst of the real estate apocalypse: the chance to buy in to the zip code of their dreams. As the crisis pushes even the most well-heeled homeowners toward foreclosure or short sales (delinquencies on $1 million–plus homes rose steadily over the past five years, according to data firm RealtyTrac), affordable properties are starting to pop up in neighborhoods once off-limits to all but the 1 percent. For bargain hunters, these homes could mean access to the best schools, use of posh local amenities and simply a chance to call that storybook block home. "We'd rather be in a community that we love than in a house we love," says Theresa Lee, a homeowner in New Jersey who recently bought a fixer-upper and plans to spend the next several years renovating.

Of course, some of these steals are on the bargain rack for a reason. As Jackman discovered, many are worse for wear—particularly those that have been abandoned for some time. And even though there's always been the teardown opportunity in the nicest hoods, those buys are

Photographs by Jeffery Salter for SmartMoney

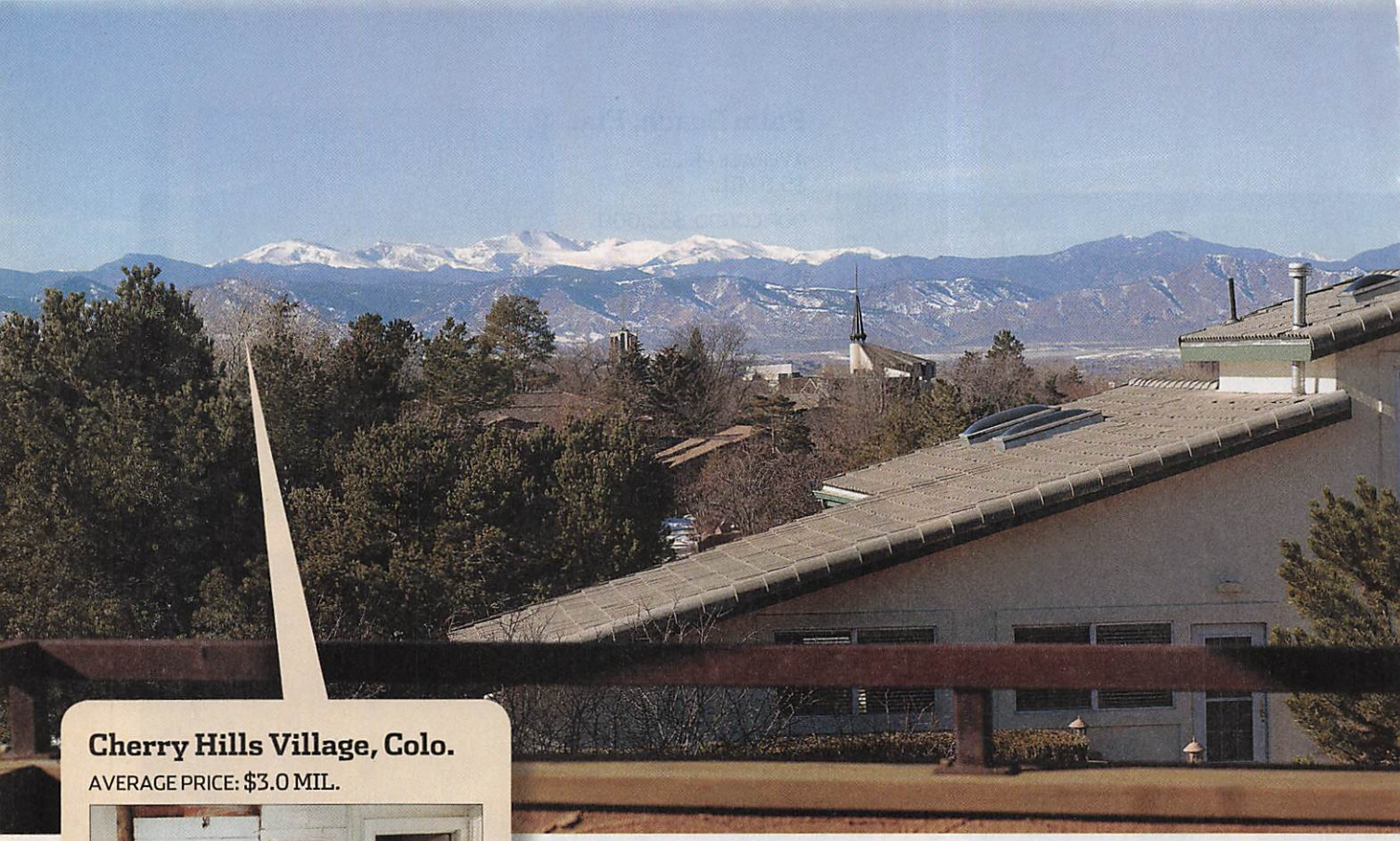
Palm Beach, Fla.

AVERAGE PRICE:
$5.6 MIL.

OUR CONDO: $32,000

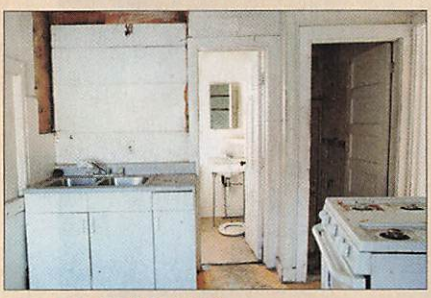
RENOVATION COSTS:
$5,000

This unit is on the ground floor, only 80 yards or so from the beach. But while it's ideal for sun worshippers, dog lovers need not apply; the building's no-pet policy prompted the previous owner to sell.



Cherry Hills Village, Colo.

AVERAGE PRICE: $3.0 MIL.



OUR HOUSE: $28,000

RENOVATION COSTS: $70,000

"You might be better off renting a bulldozer," quips agent Bryan Realph. Rental tenants trashed this home, which is now being gut renovated.

OUR HOUSE: $500,000

RENOVATION COSTS: $5,000

With good bones and a look that reminds some of Frank Lloyd Wright, experts say this house needs only a few interior upgrades. At the top of the list: carpet, paint and new lower-level lighting.

no longer the guaranteed profit makers they were in the bubble years. Then there are the property taxes, which aren't cheap in high-end communities, because they pay for the first-run movie theater in the town park or a separate police department. And just because your new address labels read "Aspen, Colo." or "Greenwich, Conn." doesn't mean you'll make the cut for the country club waiting list or get invited to join the local Junior League. It all raises an obvious question: How low can you go to live the high life in town?

Cherry Hills Village, Colo.

As one of Denver's ritziest suburbs, Cherry Hills Village makes its boundaries quite clear. While the street signs in Denver are typically green, those in Cherry Hills are a bright cherry red. So when our guide, agent Bryan Realph, unlocks the door of a small $28,000 home that doesn't seem to fit the neighborhood bill, he pauses to prepare us for what may come. "I'm up to date on all my shots," he says.

Before we have a chance to think about our vaccination status, he opens the door, and we're hit by the putrid smell of mold. The rotting wood floors creak as we walk through the living room, and the bathroom is missing an entire wall, revealing cracked two-by-fours and a slew of debris. We venture to the basement but turn around when a rickety step starts shaking. The good life this is not.

To be fair, this 890-square-foot pad is technically just outside Cherry Hills Village. And aside from the obvious step of tearing it down (explosives not included), we later find out it would take approximately $70,000 to bring it up to neighborhood code. But there's another option several streets over: a Frank Lloyd Wright–style home in Cherry Hills that's going for $500,000 in a short sale, which compares nicely against the town's average list price of $3 million. It has four bedrooms, a sleek layout and fantastic views of the Rockies. Sure, it's less than 20 feet from a noisy road and needs a new carpet in the living room, but we think it's quite a steal—until we go to leave, and the doorknob breaks.

Trapped for a few minutes, reporter and agent are left to ponder: At least the $28,000 home had a working doorknob.

Grosse Pointe, Mich.

When we first pull up to a home in Grosse Pointe Woods with a freshly painted gray exterior and a tidy white fence, we're per-

Photographs by Carmel Zucker (left) and Peter Baker (right) for SmartMoney

plexed by the ultralow $30,000 price tag. But looks can be deceiving. Inside, the home is half-finished—"or more like a quarter-finished," quips agent Michael Fellberg. The plumbing below the rudimentary wet bar is exposed, and the upstairs never made it past the framing stage. But the future owner will have to work with what's there: With the lot measuring one-tenth of an acre, Fellberg concludes the home can't be torn down because there's not enough land to build bigger. About $15,000 worth of work will finish the place off, he says, and it could serve as a nice starter home for a family looking to buy into the school district.

Speaking of the school district, if that's all a buyer is coveting, there's a way to get into Grosse Pointe schools without actually living there. According to local lore, when the school district lines were drawn, a sliver of Harper Woods, which abuts Grosse Pointe Woods, was included so some politicians' homes made the cut. The result: Home values in the Grosse Pointe school system often are 15 to 20 percent higher than the rest of the homes in Harper Woods.

Of course, if what really matters is proximity to exclusive communities, there's always the $15,000 option in Detroit, about half a mile from Grosse Pointe City—that is, if you can handle a home that's been stripped of appliances and has sewage pooling in the basement.

Palm Beach, Fla.

In a town where valet-parking lines routinely fill up with Bentleys, the esteemed residents of Palm Beach don't even blink when a mansion with a 4,000-square-foot master suite comes on the market for a cool $74 million. But with housing prices still at least 20 percent below their peak, there's plenty of room for the Lilly Pulitzer–clad crowd to score a cheap pad.

On the southern end of Palm Beach, a slew of condo buildings that popped up about four decades ago stand along the shore. Today, those condos cater to run-of-the-mill retirees or second-home owners looking for a place to crash when they want to soak up the sun. And a crash pad is about all this $32,000 studio in Tropicana Gardens ends up being, with a total square footage (340) that's smaller than most Palm Beach foyers. (The former owner found a setup that worked like a charm: His armoire acted as the headboard to his bed.) Space isn't the only restriction; owners must be 55 or older, and they can't rent the unit or own pets.

But tolerating life in a shoe box doesn't mean you'll score an invite to one of the more than 100 galas thrown during the season. After all, as Palm Beach local columnist David Desmond recently wrote, people aren't socially accepted on the island until they have $85 million, a Bentley, an Aston Martin and a Bugatti. So much for social climbing.

Grosse Pointe, Mich.

AVERAGE PRICE: $388,000

OUR HOUSE: $489,000

RENOVATION COSTS: $50,000

On the day of closing, the new owner had workers in the home resurfacing the hardwood floor. His next steps include renovating the kitchen and painting the bedrooms.

A Smoother Takeoff

$

NOT BAD

Independent Lounges

AIRPORT LOUNGES HAVE long been known as road warrior retreats, but now even everyday vacationers can get past the velvet rope. Independent lounges, like ReLAX in Los Angeles and The Club at DFW in Dallas–Fort Worth, let travelers unwind for around $35 to $50 a day. Inside, vacationers will find everything from free snacks and nap spots to spas and movie-screening rooms.

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GETTING FANCY NOW

Travel Concierges

TRAVEL OUTFITTER Abercrombie & Kent is best known for escorting travelers to exotic locales, but its new offering tackles the most daunting destination yet: airport security. This concierge service, starting at about $200, offers to shepherd vacationers through express check-in and security lines. The deluxe option ($2,790) includes a private room at London Heathrow's VIP terminal, where travelers can fulfill customs and security requirements without waiting in a single queue.

$$$

LIFE-CHANGING

Private Jet Travel

BUT REALLY, WHO FLIES commercial anymore? Jet charter firms provide everything from rides to and from the airport (in a luxury vehicle, natch) to personal escorts straight to the waiting plane. And private fliers don't go to customs; customs comes to private fliers—officials often bring the paperwork straight to arriving jets. Privacy has its price, of course: Some jets from New York to Los Angeles start at around $21,000.

—Linda Lacina

YOUR MONEY'S WORTH
NOISE-CANCELING HEADPHONES

▲ WORTH IT

Sennheiser MM 450 $450

Unlike most noise-canceling headphones, this pair doesn't render wearers completely clueless to the outside world. A button activates an external microphone that pipes in outside sound, and Bluetooth technology lets people take phone calls or listen to music cord-free.

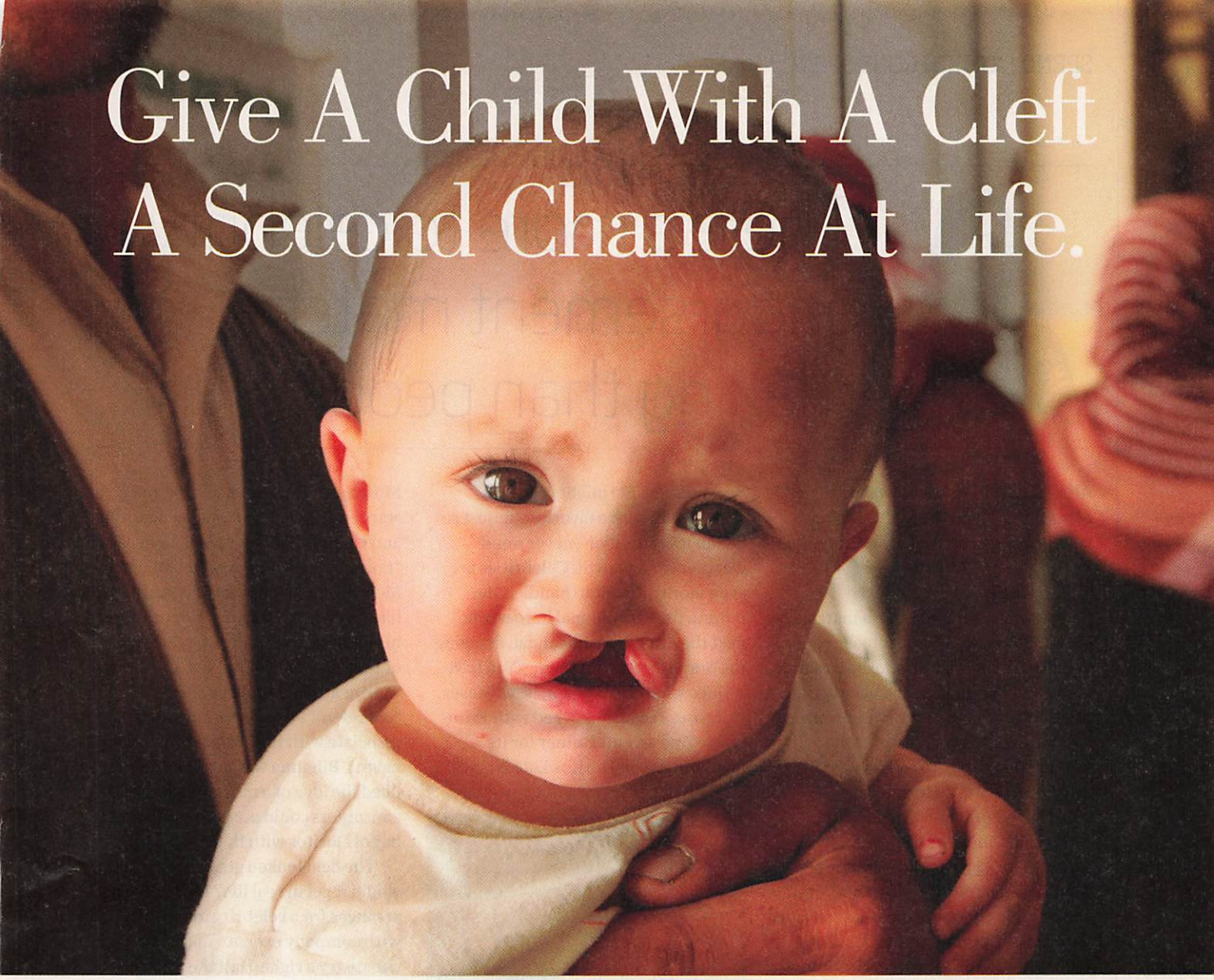
▼ NOT WORTH IT

Bose QuietComfort 3 $350

People using these headphones with a tablet will need a separate mobile kit. Unlike the Sennheisers, the Bose pair doesn't continue to play music if the battery for the noise-canceling function is dead. The company says the headphones aren't designed for use without noise-canceling. *—L.L.*

PHOTOGRAPH BY PAUL BOWEN/CORBIS (PLANE)

Give A Child With A Cleft A Second Chance At Life.



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"There's more to celebrity-endorsement match-making than people think."

11% Share of ads featuring celebrities

ANNE KADET is a senior writer at SMARTMONEY and the Metro Money columnist for *The Wall Street Journal.*

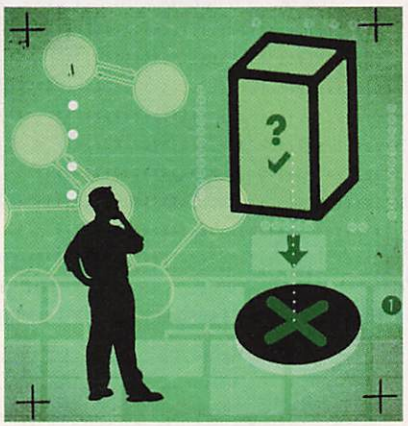
A CELEBRITY product endorsement is like a marriage. Some matches just make sense: We all believed that Bill Cosby was nuts about Jell-O pudding, and clearly the pudding loved him back. But too often, the pairing feels very, very wrong. Was anyone happy to see Bob Dylan's mug in an ad for Victoria's Secret?

Clearly, companies need help. Enter matchmakers like Jarrod Moses. The 42-year-old founder of Manhattan marketing agency United Entertainment Group paired Covergirl with Ellen DeGeneres and Build-A-Bear with Victoria Justice. He's one of those annoying overachievers who puts in 12-hour days at the office before heading home to spend another four hours jabbering on the phone. There's a lot more to the matchmaking than folks imagine, he says.

According to research firm Millward Brown, the share of ads featuring celebrities fell from its peak of 18 percent in 2004 to just 11 percent last year. But when brands and celebrities do hook up these days, Moses says, the relationship runs deep. A "360-degree package" might include blog posts, tweets and attendance at sales calls. In return, the celeb can demand stock options or a percentage of sales. A multiyear deal can pay tens of millions.

Companies can have quirky demands. A CEO might request a partnership with a favorite star just so he can meet his idol—never mind whether it's a good fit. Celebrities are even more difficult to handle. One minute they're national heroes; the next they're mired in scandal, dragging the brand down with them. "You have no idea what will happen," says Moses.

Moses recently worked with Frito-Lay to find an entertainer for its new chip flavor, Doritos Late Night



All Nighter Cheeseburger (don't ask). It didn't take long to generate a list of possibilities. The universe of commercial-ready stars is smaller than you'd think—for any campaign, you're looking at maybe 20 candidates. Moses and his team further narrowed the pool based on experience and gut feeling: They know many stars personally and have a sense of who's a good fit.

There's some science to it as well. Moses uses a data service that rates stars on factors like name recognition and whether folks perceive them as "boring," "rude" or "a good listener." Moses thought pop star Rihanna looked like a match for Doritos. Her profile is high among the Doritos target audience of 18- to 24-year-olds. Plus, she scored well on attributes ("trendsetter," "confident") that Frito-Lay wants to associate with the brand. As luck would have it, Rihanna was intrigued: She liked the idea of a music video that consumers could access by scanning a bag of Doritos with their webcam.

The deal looked great on paper, but would it gel in real life? Moses always arranges for a celebrity to meet with company execs to make sure the chemistry's right. Half the time, he says, the deal falls apart after the first date. In this case, Rihanna and her handlers met the Doritos team in Miami just before the Super Bowl. Then came the fun part: four months of negotiations with agents, publishers, the record label and musicians.

In this case, the pairing paid off. Within months, bloggers were quoting Rihanna gushing about her venture, the song was a hit, and the cheeseburger-flavored chips were flying off store shelves. Frito-Lay says the collaboration "helped raise the profile of the flavor." It's not a cure for cancer, but at least no one's embarrassed. Now could someone ask Charles Barkley to stop shilling for Weight Watchers?

For more of Anne Kadet's Tough Customer columns, visit SmartMoney.com.

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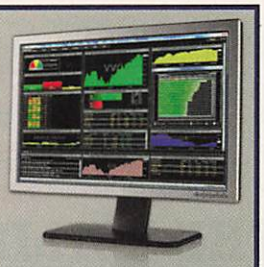

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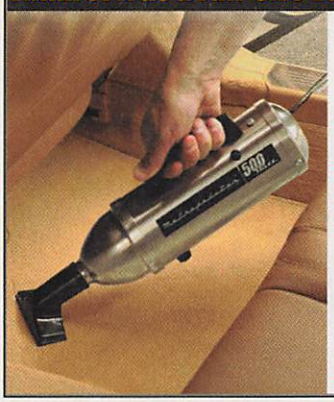

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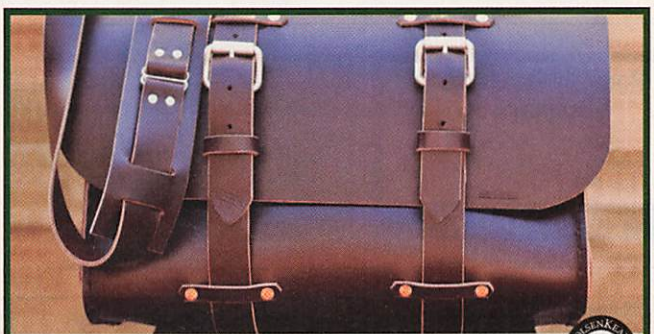

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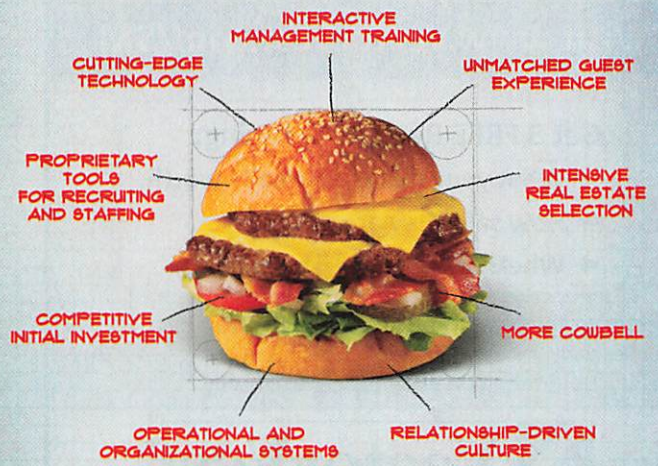

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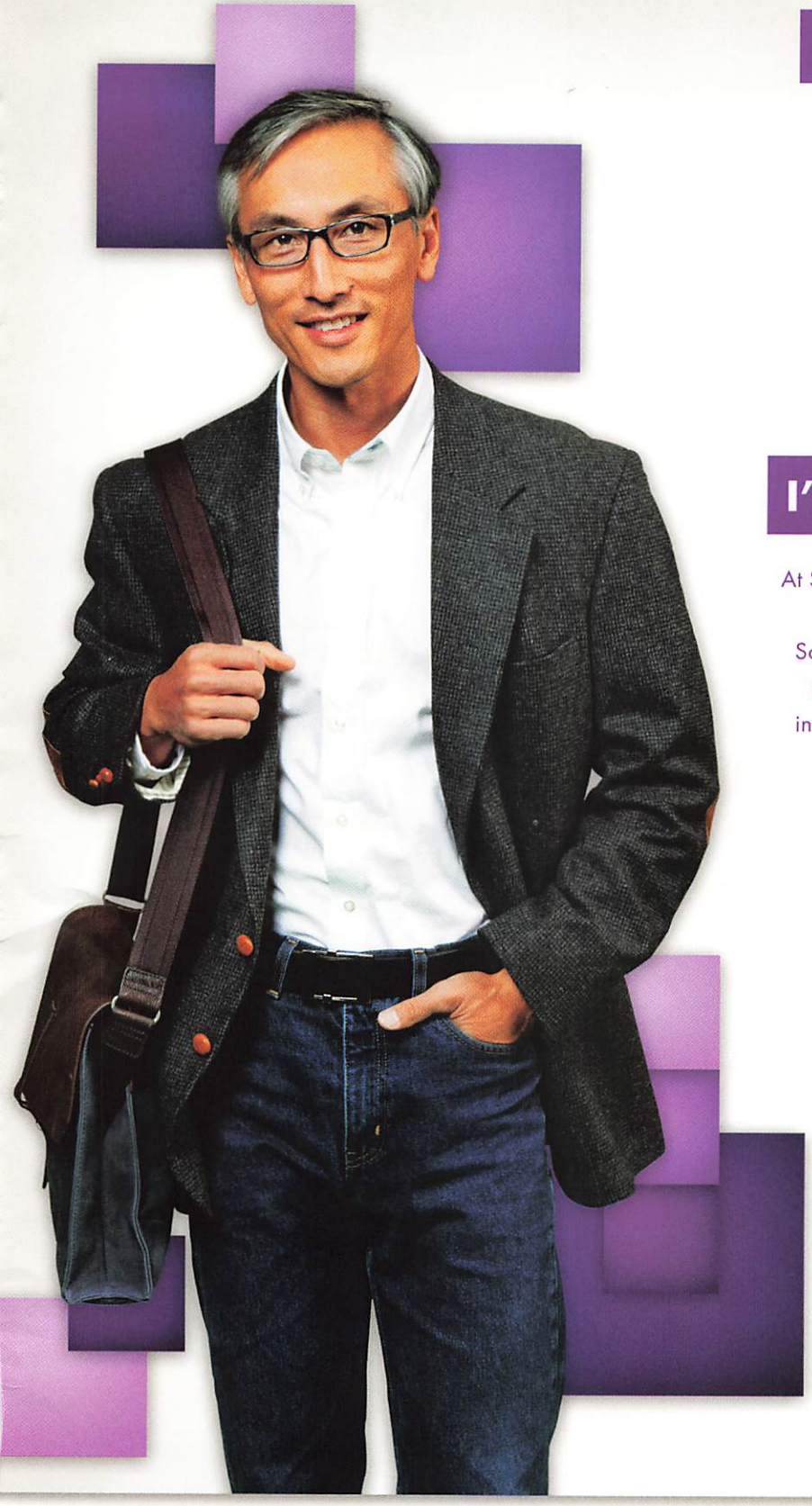
Green Gold?

The Pitch: An olive oil that costs more than a first-class ticket to Greece, the land of all things olive? That's what the company behind Lambda, billed as "the world's first personalized olive oil," is offering—for $15,000. And this is no simple bottle of salad dressing, says maker Speiron, which calls it "a luxurious way to enjoy life." Speiron sources the oil right down to the particular trees the olives are harvested from, and presses and bottles it to preserve "maximum freshness and fruitiness," says a company spokesperson. (The brand also classifies the oil as ultra-premium, a category that goes beyond extra virgin.) But what really distinguishes Lambda, the brand notes, is the packaging: The nearly 17-ounce bottle is embossed with the recipient's signature and comes in a lacquered case with a gold nameplate.

A Taste of Reality: While the demand for olive oil is starting to rival that of wine among the culinary cognoscenti, most experts say a great bottle can be had for $20 or so. Zingerman's, a Michigan-based purveyor that carries an extensive selection of high-end oils, says its priciest offering goes for $60—and comes from an Italian producer that releases only 2,000 bottles a year. As for the packaging, the foodie crowd doesn't seem impressed. "It's marketing, fashion, what have you," says Judy Ridgway, author of four books on olive oil. But that's precisely the point, counter Speiron execs. "This is for very special people," says a spokesperson. *—Charles Passy*

PHOTO-ILLUSTRATION BY SMARTMONEY



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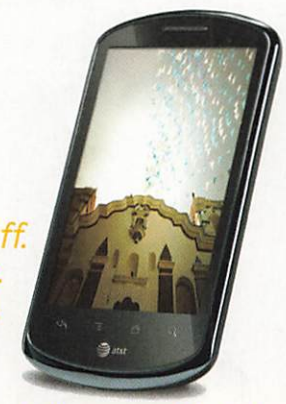
"No. I can talk.

I haven't had a chance to find that cake recipe you asked for.
I can't believe they don't sell tres leches mixes in the U.S.

Things have been crazy around here lately.
James has been working a lot, so I've been pulling double duty.
The house is a disaster zone.
I guess I'm giving up on being some domestic goddess.

The kids are good. The twins started back to school.
They now think I'm lame.
Anyway. Erica keeps saying she wants to come visit.
Jimmy has started to walk. I can't believe it either. I think he looks like Dad.
I know it sounds weird.
But sometimes when I look really closely, I think he might actually be Dad.
I mean he's not. I know that. But he's got his eyes, you know?

I wish they could have met. Dad would have been crazy about Jimmy. Don't you think?"



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